The Business Advocate Magazine

Nation's Business®

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Age Bias Charges: A Growing Problem

How To Determine Your Company's Value


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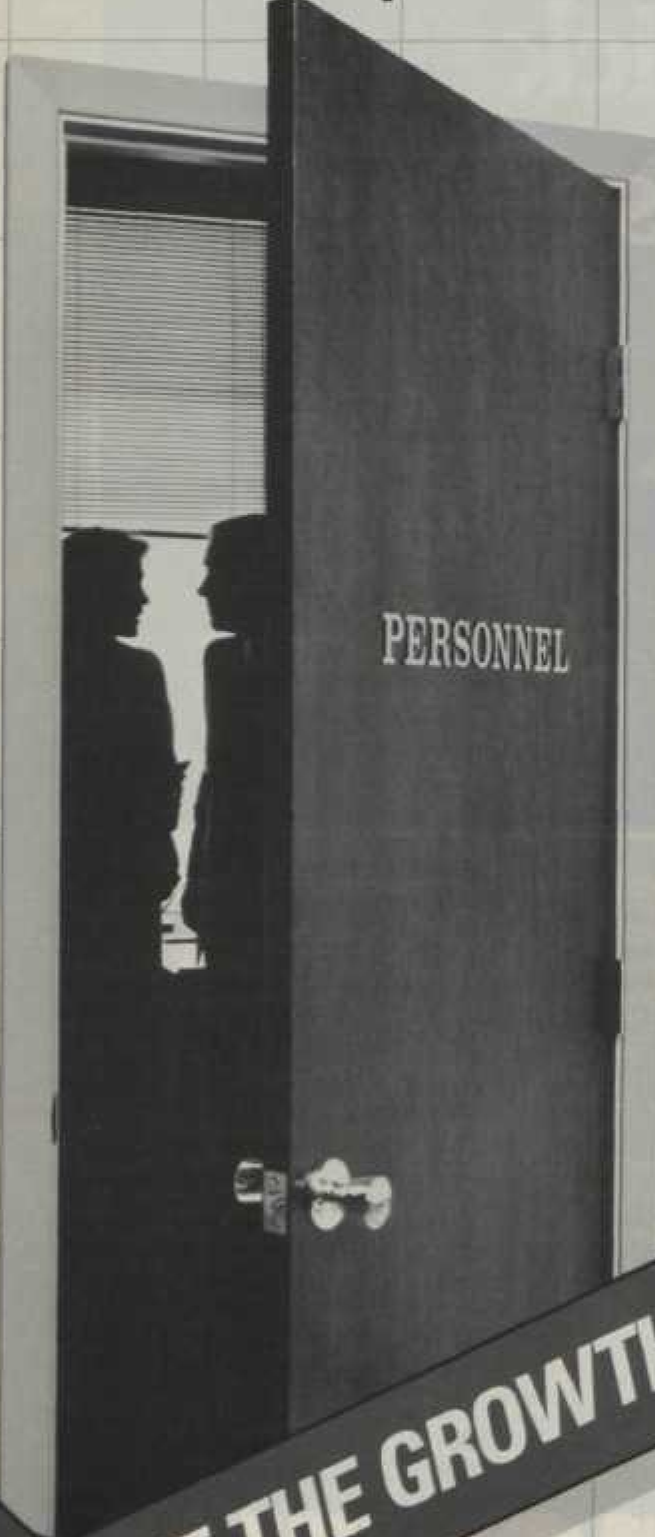

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Disarray at the EPA could create an opening for environmental regulations that stall the business recovery.

PHOTO: MICHAEL J. PETTYPOOL—UNIPHOTO

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Though age discrimination complaints can cost millions, many companies do little to meet this increasing threat.

PHOTO: DIEGO GOLDBERG—SYGMA

Small Business Taxes 52

Sen. Alfonse D'Amato, among others, is pressing for tax action that would help small firms get needed capital.

PHOTO: BILL STRODE—BLACK STAR

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The case load in bankruptcy courts is growing rapidly, but a legal impasse has reduced action to a glacial pace.

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Should a judge bow out of a case involving a company in which his wife owns a few shares? Yes, says the law. No, says James J. Kilpatrick.

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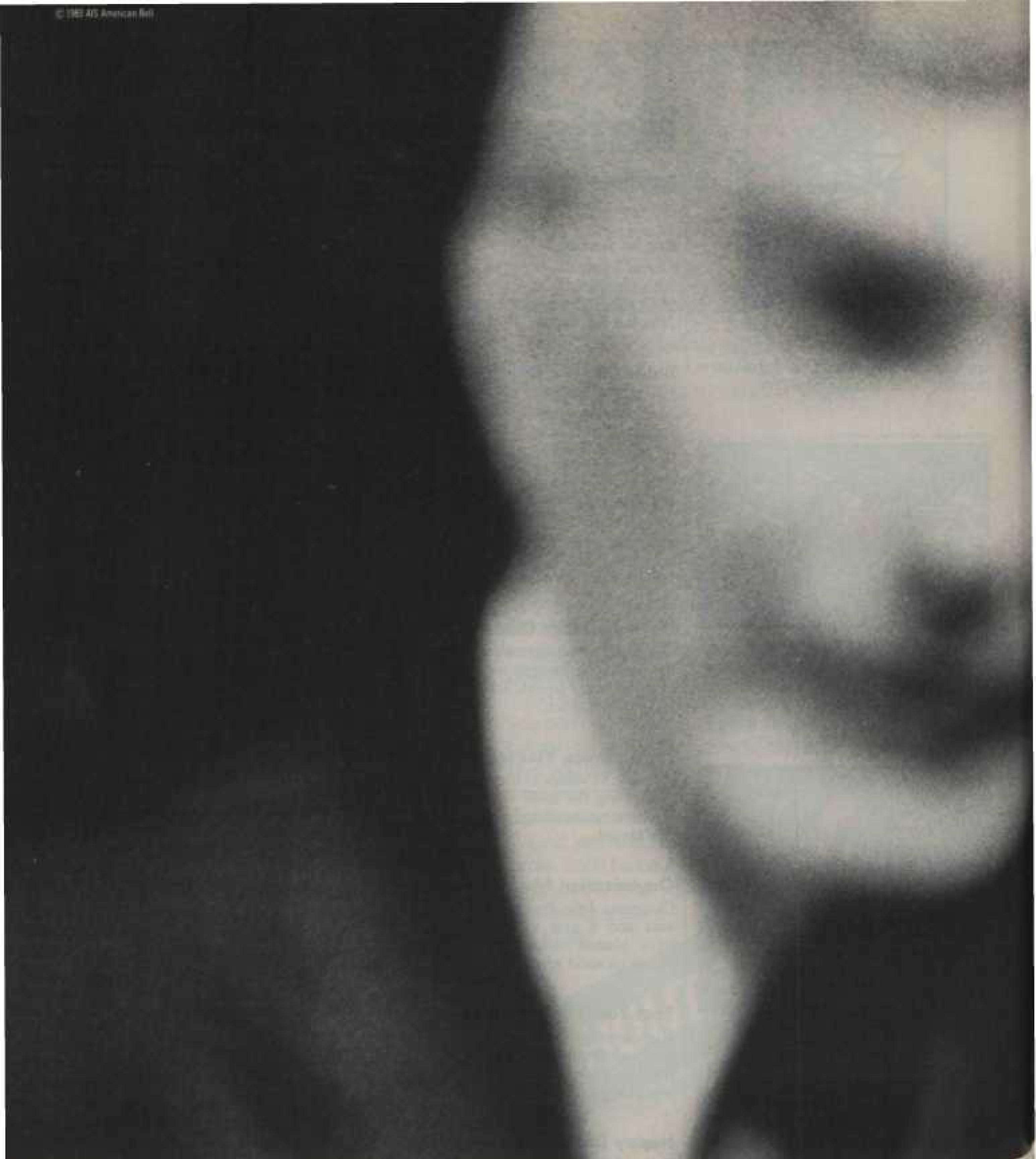

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The Perils in "Fits of Morality"

LORD MACAULAY once remarked, speaking of the furor over the peccadilloes of Lord Byron, that he knew of no spectacle so ridiculous as the British public "in one of its periodical fits of morality." Lord Macaulay is long gone, but if the old boy were still around today, he would be heaping the same scorn on his American cousins. Our Congress went through fits of morality at the time of the Watergate scandals nine years ago. We are suffering the consequences today.

A fine example of this foolishness cropped up just a few weeks ago in the U.S. Supreme Court. The story doubtless was of painful concern to the affected litigants, but it caused little commotion elsewhere. I am speaking of the Great Cement Case and of the ludicrous things that happened because of a law on the disqualification of federal judges.

Back in September, 1976, some states got together and filed a massive class action suit against 120 manufacturers of cement. The companies were accused of price-fixing, in violation of antitrust laws, and the 15 states sought the usual injunctions and triple damages. In 1977 the cases were consolidated in Arizona before U.S. District Judge C.A. Muecke, who spent the next four years living with the litigation. Under his direction, a master list was compiled of 210,000 customers—including every major corporation in the country—that at one time or another had bought cement from one of the defendant companies. These customers constituted the class of potential beneficiaries of an antitrust award.

Then the trouble began. In his annual statement of financial disclosure, Judge Muecke dutifully had reported that his wife had inherited a handful of shares of stock. Lo and behold, it turned out that she had a "financial interest"—no matter how trivial or insignificant—in seven of the companies on the master list. The defendants thereupon demanded that Judge Muecke withdraw from the case.

The judge was nonplussed. Withdrawal, he thought, would be "unfair" all around, but on examining the law as amended in 1974, he decided he had no choice. His wife's holdings amounted to less than $30, but the law demands recusal—that is, that a judge disqualify himself—if the judge or his spouse has any financial interest, "however small," in a party to litigation before him. On appeal, a divided U.S. Court of Appeals for the Ninth Circuit agreed: He had to step aside. While this was going on, it was proposed that the Judicial Panel on Multidistrict Litigation might name a replacement—but it developed that four of the seven judges on the panel were in the same fix. They also held stock in some of the customer companies.

If appointees are going to be crooks, they will be crooks.

On Feb. 22, 1983, the matter at last reached the Supreme Court, and can you imagine what happened? The Supreme Court was paralyzed: Chief Justice Warren Burger and Justices Harry Blackmun, Lewis Powell, Sandra O'Connor and William Rehnquist also had holdings in some of these potential "parties." Thus the Court, in an incredible and unprecedented situation, was compelled to a mass recusal. The Ninth Circuit decision was lamely affirmed "with the same effect as upon affirmance by an equally divided court."

Eventually a replacement for Judge Muecke will be found, and the case will stagger on. But this is insane. The darkly suspicious notion at the bottom of all this is that a highly regarded district judge would betray his oath and risk his reputation by wilfully skewing his orders to benefit his wife's $30 investment. And not only the district judge. The contagion might infect members of the multidistrict litigation panel. Not even five members of the Supreme Court may be trusted.

IT IS PREPOSTEROUS. The Watergate climate that produced this silly law in 1974 produced other acts as unfortunate. A special prosecutor must now be named to investigate the most baseless allegations. A President's nominees must divest themselves absolutely of their investments in any company having even a remote relationship to their agencies' activities.

I am not suggesting that we wipe out all laws on recusal, disclosure and divestiture. Appearances of propriety are indeed important. All I am urging is that we repose some confidence in the men and women who sit on federal benches or serve in policy-making offices. If such appointees are going to be crooks, they will be crooks willy-nilly, laws or no laws. What happened in the Great Cement Case ought not to happen again. □

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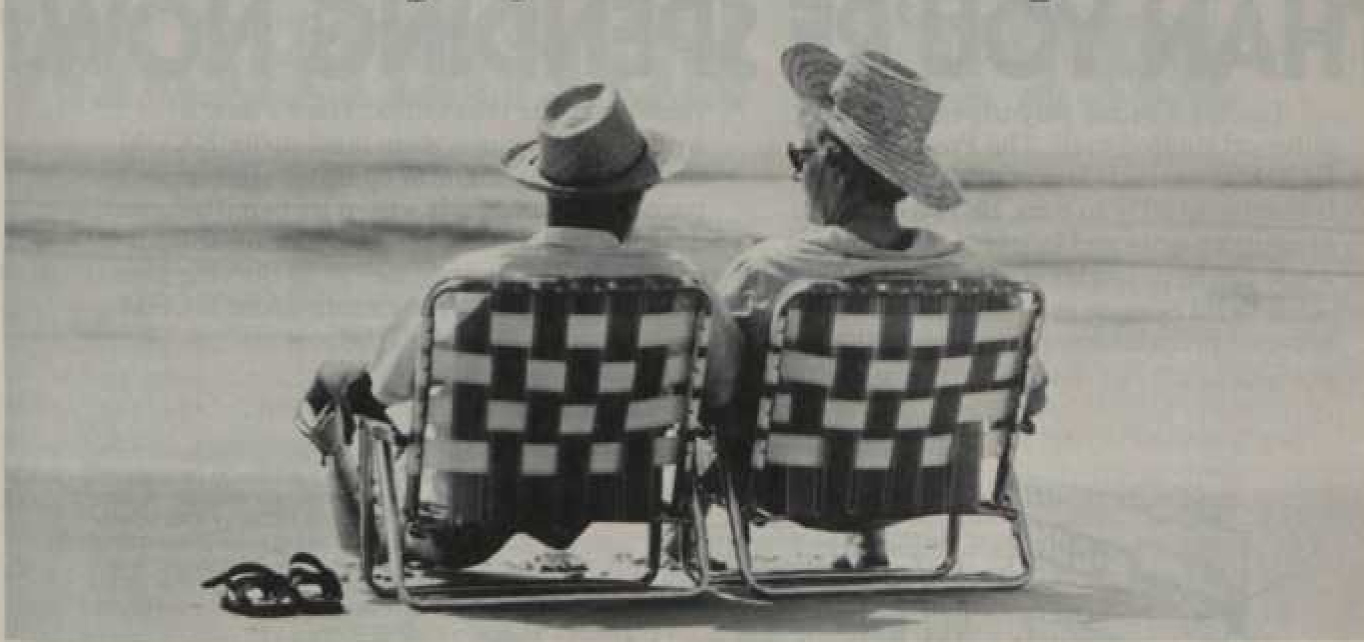

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WASHINGTON LETTER

▶ MASSIVE INCREASES in unemployment taxes are a growing threat, say experts. As of February 1, 16 states were in default on loans made by federal government when state jobless funds ran out. Governors' association recommends indexing wage base (now $7,000) to rise with inflation, plus forgiving some loans and interest. Congressional Budget Office lists use of Social Security wage base--$35,700 this year--for unemployment compensation program as "revenue option" for reducing federal deficit. That, CBO figures, would increase UC taxes nearly $15 billion through 1988. Business representatives fear abandonment of 1981 reforms adopted to force states to manage UC more responsibly.

▶ WILL PROTECTIONISM become politicized issue in 1984 election? That possibility worries some observers. Benefits of free trade are appreciated by only about one third of general population. In the past, strong support from business and opinion leaders has been enough to assure bipartisan backing in Congress. But Democrats took protectionist stand in last election and will be tempted to do so in next, where it would attract much more attention. Concurrently, support for free trade has been slipping among business and opinion leaders.

▶ REAGAN ADMINISTRATION is doing no-net high-wire act on international trade. Problem is how to get tough enough to force trading partners to reduce their trade barriers without triggering wave of protectionism. This is no time to go it alone, economists say. U.S. is strong enough to lead recovery, but not strong enough to sustain it unless economies of Japan and Europe also prosper.

▶ TIGHT MONEY coming? Many experts on monetary policy have been accusing the Federal Reserve Board of abandoning its fight against inflation by flooding the economy with new money. Until recently, Fed spokesmen denied this charge. But in appearance before House Budget Committee, Fed chief Paul Volcker acknowledged that money growth rates may be too high and predicted gradual moderation. Gradual moderation would be greeted with relief in most circles. However, given Fed's previous problems in modulating brake pedal, path to "moderation" may be immoderate.

▶ PAUL VOLCKER going? Fed chairman's term expires in August. Washington is full of speculation on his successor. Often mentioned: economist Alan Greenspan, banker Walter Wriston and Preston Martin, Fed vice chairman. Volcker and President Reagan have been keeping their preferences to themselves. Best bet: Volcker will succeed Volcker.

▶ FIRST BUDGET to come from House Budget Committee is expected by conservatives to reflect liberal pressure from Speaker Tip O'Neill (D-Mass.) and his allies. "We may have to shoot down the first one to get something reasonable," says one House member. Conservatives are still angry that promises made last year to cut spending in exchange for tax increases were not kept.

▶ BOOMLET seems to be developing for tax hike on petroleum. Lots of forces converging on this point. Politicians are realizing that, with oil prices falling, public might not notice tax increase. Truckers would rather pay higher fuel taxes than higher weight-based user fees in highway construction revenue bill

adopted last December. Transit industry is unhappy with its share of that tax boost. Environmentalists want to maintain price incentive for conservation. Sen. Pete Domenici (R-N.M.) is introducing legislation (see page 42). Fed Chairman Volcker and Martin Feldstein, who heads Council of Economic Advisers, give qualified support to higher tax on crude oil.

▶ ADDITIONAL confirmation of strong economic rebound: upturn in rail traffic. Railroad executives from around nation report growing volumes of steel, chemicals, grain, lumber and other building materials.

▶ OMB HAS DECIDED TO REVISE its proposed revision of Circular A-122. That proposal, which Budget Office announced in January, upset just about everybody who deals with government. Intention was to bar use of federal funds for lobbying. But rules contemplated were so draconian, analysts say, that effect would have been to prohibit any lobbying at all by groups with contractual ties to federal government. U.S. Chamber of Commerce Chairman Robert Thompson termed proposal "a stunning intrusion" into rights of privacy and free speech, saying "the effect would be to chill the perfectly legal dialogues . . . that are essential to sound governmental processes." OMB is making revised version more moderate.

▶ IMMIGRATION, AGAIN. Bills intended to prohibit hiring of illegal aliens have been reintroduced in both houses of Congress in substantially same form as last session. Fines could be imposed on employers not only for actually hiring undocumented foreigners but also merely for failing to keep proper hiring records. U.S. Chamber objects that this provision would be trap for many small businesses, which are already overwhelmed by federal paper work. More enlightened approach, says Chamber, would be targeting enforcement efforts against intentional law violators. Entire subject generates so much controversy that passage is far from assured, especially in House.

▶ FINANCIAL DEREGULATION, proceeding recently at breakneck pace, is due for a pause--until June 28, at least. This is next meeting date for Depository Institutions Deregulation Committee. At last meeting, members decided financial industry needed some time to digest changes already made, such as money market deposit accounts and Super NOW accounts. Likely changes next time around: higher interest ceilings for passbook savings and opening up Super NOW to businesses.

▶ SOCIAL SECURITY reform package does not get very good grades from panel of academic economists surveyed by the Heritage Foundation, a conservative Washington think tank. Of the 162 respondents, 94 percent say it does not "address the root problems." Raising payroll taxes is opposed by 78 percent. But 95 percent support delay of cost-of-living adjustments. Group also expresses strong preference for private-sector-oriented solution: 85 percent favor expanded use of Individual Retirement Accounts as alternative to Social Security, and same percentage say that people should be able to choose between Social Security and a private insurance program.

▶ WOULD SMALL BUSINESSES be affected adversely by raising Social Security retirement age, as Congress is doing? Yes, according to report from Small Business Administration. However, many small business people find that conclusion questionable. In poll taken by Washington Report, published by U.S. Chamber, 70 percent of 1,800 respondents said they would be either unaffected or positively affected by phased-in delay of retirement age. Vast majority of Washington Report subscribers, 78 percent, are in companies with 50 or fewer employes.

▶ MAYBE HE KNOWS SOMETHING. Navy Secretary John Lehman--not a leading dove--has his own plan for saving 20 percent of Pentagon's operating budget: "Get rid of those 6,000 bureaucrats" in office of the Secretary of Defense.

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LETTERS

Those Unbalanced Scales

Re: "Unbalanced Scales of Justice" [James J. Kilpatrick, February].

The fact that criminals, abetted by young, misguided and inexperienced sociologists, are able to use points of law as avenues for escaping incarceration can be disturbing only to a degree. History affirms the truth that man hasn't changed. His worst faults yet survive.

The Founding Fathers were well aware of this. The Constitution and the Bill of Rights were written with the full knowledge that man will repeat his inhumanities when so allowed. Within those documents lie the protections that you and I may yet require. Were you or I wrongly accused, would we not weep at losing the benefits that the men who established this nation had the foresight to give us?

RALPH M. REARDON
Gardiner, Wash.

How right Kilpatrick is on both counts—we don't want pre-1914 "anything goes," but neither do we want crimes against the government or the people to go unpunished.

The Supreme Court, in all its wisdom, has protected the innocent and the guilty with no regard for the consequences to the public, which also has rights that need protecting.

It would seem that when there are technical offenses of arrest, evidence or procedure, that should be noted, but the trial should be carried to its conclusion, including sentencing. After the trial, the same jury should determine the amount of fine or punishment, if any, to be levied against the offender.

The public would be protected, all enforcement people would be forced to keep their acts as clean as possible, the guilty would not be freed by enforcement error, and the innocent would still be innocent.

Unfortunately, as things now stand under the Supreme Court decisions concerning these matters, the public and justice are forgotten.

MERLE B. SMITH
Albany, N.Y.

Recall withholding plan

Re: "Suspense Over Withholding" [February].

In addition to taking more and more money away from the hard-pressed taxpayer, Congress in its myopic wisdom now seeks to impose a triple tax on this country's basic capital producer—the saver. Is it the intent of Congress and this administration that personal and corporate saving cease?

I urge Congress to work hard and long for repeal of withholding on interest and dividend payments.

MILTON W. HEATH, JR.
Sherborn, Mass.

Social Security remedies

Re: "Social Security at the Brink" [Editorials, February].

Social Security was not meant to be a total retirement annuity. How many people have benefited from the system and yet did not pay one cent into it?

I have been a federal employe for over 30 years, and the little bit I have paid into the system would not buy a new car tire. Therefore, I do not intend to collect anything from the system.

Why not take money from the general fund to provide our needy senior citizens with a more enjoyable life? (After all, that is where every tax dollar the Defense Department spends comes from.)

DELMAR H. BRANDT
St. Louis Park, Mo.

As a student of both actuarial science and the Social Security system, I applaud your view concerning an improved plan to rescue the system. Social Security should be recharacterized to bring it within this and the next generation's ability to pay. Gradual reductions of the "replacement ratio" and the age at which unreduced benefits are provided are essential. Delaying these changes to the system will be catastrophic.

L. B. COMBERIATE
Rohm and Haas Company
Philadelphia

Of neutrons and names

Your report [Outlook, February] on our research to generate nuclear energy without neutrons and without radioactivity contained one moot point and one inadvertent error. First, skepticism

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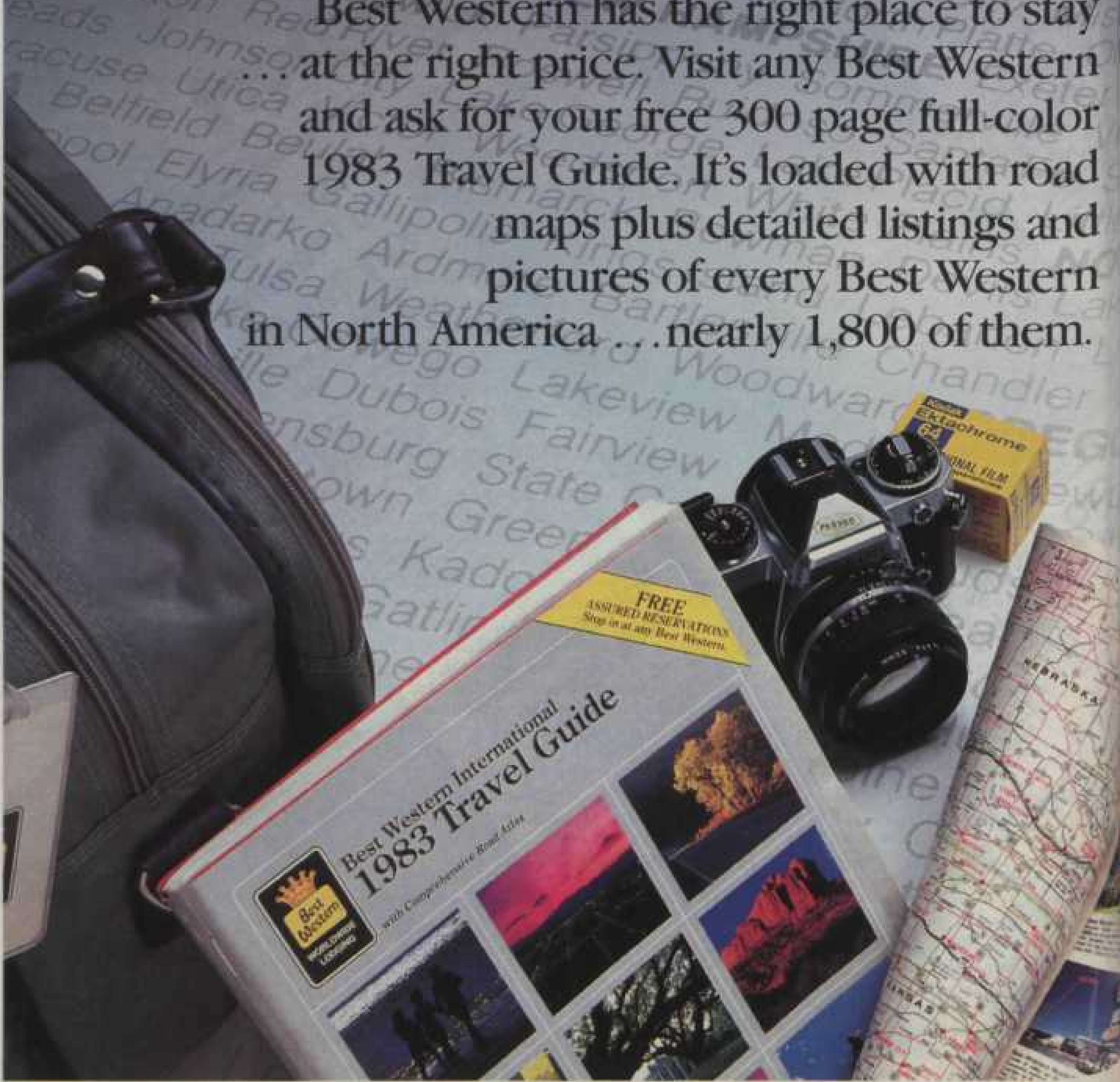

about our project is no longer "widespread." Indeed, a reference to our work in the December issue of *Technology Review* said a "growing community of physicists believe it may be possible to develop a type of nuclear power that does not require radioactive fuel and does not produce radioactive waste."

Second, the name of our organization was changed last year from United Sciences to Aneutronix, and though our corporate offices are in New York, our laboratories are in Princeton.

BOGDAN C. MAGLICH
President
Aneutronix, Inc.
New York

Exporting jobs

The ship in the photo on page 63 of "Putting More Wind In Yankee Traders' Sails" [January] was being loaded with logs, not lumber as the caption states.

There is a difference. Countless jobs are what is being exported.

LEWIS MCFARLAND
Trenton, Me.

Getting into training

Re: "Amtrak: High Cost for Low Quality" [Outlook, January].

The criticism directed toward rail passenger service's "strange niche" in the economy just might be refuted by good old American horse sense.

It doesn't require a Ph.D. in physics or finance to recognize that the steel wheel on the steel rail offers the lowest coefficient of friction and the smoothest ride (especially on welded rail) and, therefore, the most energy-efficient method of moving goods and people over land.

That is also why railroads can earn not only an operating profit but also a return on the investment in roadbed and signal systems. No other mode of public transportation is required to or could do so.

American taxpayers recognize that rail passenger service is capable of providing the highest quality transportation at the lowest cost. And if American business isn't capable of providing it, then the taxpayers want government to do so, as it does in every other nation.

WILLIAM H. HUBBARD
Bethlehem, Pa.

More bang for a buck

In February, the "Where I Stand" question [see page 73, this issue] was: Should defense spending be curtailed? I, for one, cannot answer simply yes or no. My sense of reason requires me to answer no.

At the same time, I realize there has not been enough thought given to obtaining more bang for a buck.

I wonder what would happen if the admirals and generals were told to get the job done within the billions of dollars already allotted or be prepared to be fired. As the owner of a small business, I have been forced to do exactly what I am suggesting for our military—and I will survive.

THOMAS S. KRAMLICK
Professional X-Ray Systems, Inc.
Schenectady, N.Y.

What's in the trash bin

Re: "What's in Store in Congress for Retailers?" [February].

One correction to your article is needed. Currently, retailers are not exempt from hazardous waste disposal regulations. They are required to have small quantities of hazardous waste delivered to state-approved facilities. Further, no one is proposing to subject them to the full application of federal regulations, merely to a system that is tailored to the special problems they face and that their wastes create.

Refuse collection firms are needlessly exposed to employe injury and equipment damage by hazardous waste mixed with ordinary refuse in trash bins. The National Solid Wastes Management Association is supporting a law requiring notice to commercial and industrial refuse haulers that hazardous waste is indeed being discarded. Our members are experienced waste managers, but they can't manage waste safely if they don't know it's not just garbage.

RICHARD L. HANNEMAN
Director
Government and Public Affairs
National Solid Wastes
Management Association
Washington

The temp does get paid

"The Office Computer Boom: It's Just Beginning" [December] mentions Kelly Services' word processing training program for temporary employes.

The article states: "The hiring firm does not pay the temporary's salary until the worker is up to speed on the equipment at the assigned workplace." This statement confuses the wage paid to the temporary employe with the charge to the customer for our service.

A temporary employe is paid for all time spent at the customer's office, but we do not charge the customer for time spent learning.

This arrangement ensures that our customers do not pay for nonproductive time.

ROSE LESCH
Supervisor, Public Relations
Kelly Services
Detroit

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Do you love the wide open spaces? Clean air? The beauty of nature? Are they a part of the legacy you have planned for your loved ones?

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Let's Not Short-Circuit America's Growth Companies

by
Dr. John M. Albertine
President, American Business Conference

America's growth companies hold a key to the nation's economic revitalization. They are the creators of jobs, the developers of new technologies, the source of productivity improvement, the successful competitors in international markets.

They depend on a healthy electric utility system.

POWER FOR GROWTH

Growth companies are efficient users of energy. Their products and services increasingly are electronic- or electricity-based. Their manufacturing processes are computer controlled and electronically automated. They must have dependable, adequate electric supplies.

Perhaps more important, a healthy electric utility industry is essential to an overall economic environment within which growth companies flourish.

Therefore, these companies are concerned about the long-term prospects of the electric utility industry.

They know that investment in new facilities to increase efficiency and productivity makes sound economic sense for all business and particularly for producers of energy. But today's electric utility industry is finding it difficult to make needed investment. Essential construction programs are being cancelled or deferred due to the precarious financial condition of the industry.

According to the Department of Energy, as well as studies commissioned by the industry itself, the result at best will be a higher than necessary cost for electricity in the future.

"...a healthy electric utility industry is essential to an overall economic environment within which growth companies flourish."

Power shortages could begin devel-oping before the end of this decad

UTILITIES MUST INVEST

Diminished industrial activity an conservation efforts have slowe demand growth for power consider-ably in recent years. In a rejuvenate economy, though, electricity will ac-count for a larger share of industr energy use, and demand should g up accordingly.

Even if demand growth remains rel-tively low, utilities must invest in ne facilities to:

- reduce the nation's dependenc on unreliable and expensive im-ported fuel;
- replace aging, inefficient facilities;
- improve transmission capability;
- meet the supply and reliability re-


Dr. John M. Albertine is president of The American Business Conference, an organization limited to chief executives of 100 U.S. corporations that have grown at least 15% annually for the past five years. Its member companies have revenues between $25 million and $1 billion and represent a broad range of manufacturing and service businesses.

quirements of an increasingly electrified economy.

If utilities cannot make these investments, the cost to the nation will be immeasurable. Utility capital requirements for essential facilities are estimated at $320 billion for the remainder of the decade. At least half of that amount will have to come from outside investors.

ADEQUATE RETURNS NEEDED

Tax-deferred dividend reinvestment programs, declining interest rates and the general stock market rally have helped improve the investment attractiveness of utilities. The prime beneficiaries, though, are utilities that are not building. Investors recognize that, in the current economic and political environment, utilities may be prevented from earning adequate returns on new facilities.

Those companies with major construction programs for the most part must pay premium interest rates to bond holders and other lenders or issue stock at prices below book value. Consequently, utility managements, in order to protect the investment of their current shareholders and to assure their ability to meet obligations to current lenders, must cut back on investments for the future.

What is the solution?

All of us—American business, consumers, regulators, legislators and the utilities—must participate in efforts to restore the utility industry to financial health and to assure long-term power supplies. That means consumers must recognize that the cost of providing electricity, as with all other energy sources, has risen and must be borne by the ultimate user.

BENEFITS FOR ALL

Those of us in business and government must support efforts to assure utilities an adequate return on their investments.

All of us will benefit in the long run.

John M. Albertine

John M. Albertine

This message is sponsored by the Edison Electric Institute, which represents the investor-owned utilities that deliver 77% of the nation's electricity.

Participating independent authorities are not paid for these messages. They believe a healthy electric industry is of critical national importance. EEI welcomes your comments.

Edison Electric Institute
The association of electric companies
1111 19th Street, N.W., Room [illegible], Washington, D.C. 20036

Finding a "Phobia" in Fear of Deficits

PHOTO: DALE THOMPSON

Robert Genetski thinks the federal budget may show a surplus of $50 billion by 1987, instead of the officially predicted deficit.

Fear of federal budget deficits seems to have replaced fear of thermonuclear war as the great motivating force in Washington politics.

Many respected experts—in and out of government—solemnly proclaim that the nation faces dangerously high deficits even if a recovery is indeed under way.

But is the fear itself rational? Deficit forecasts have been notoriously inaccurate—and not always on the low side, either. The official projection for fiscal 1979, for example, was $61 billion of red ink. Actual deficit for that year: $28 billion.

Among economists who dissent from today's conventional deficit wisdom is Robert J. Genetski of Harris Bank, of Chicago.

"It is important to recognize that the recent deficit phobia has neither an established theory nor evidence to support it," he says.

Genetski notes that the alarming deficit forecasts are based on expectations of 3 percent annual real growth. But given the amount of idle capacity in the economy, he says, "real growth could proceed at 5.5 percent per year for the next five years before reaching a cyclical peak."

If he is right about that, he says, then "the budget may have a structural surplus of as much as $50 billion by 1987," rather than the officially anticipated deficit of $142 billion.

Economists Paint A Brighter Picture

The ranks of those foreseeing good times ahead have swelled considerably with the addition of the 4,000-member National Association of Business Economists.

NABE's median forecast for after-inflation gross national product is a rise of 3.8 percent from the fourth quarter of 1982 to the fourth quarter of this year. (The Reagan administration's projection is 3.1 percent.) Growth will accelerate as the year wears on, NABE members believe, with a 3 percent rate for the first half rising to 4.3 percent in the second.

A key sign of the developing recovery is rising demand. In the latest survey, 43 percent of the manufacturing economists report unit volume rising, compared to 31.5 percent last November and 28.9 percent in May.

The outlook for inflation has also improved. The consumer price index is now expected to rise 5 percent for 1983, less than the 5.8 percent anticipated in the November survey. Interest rates are expected to stabilize near present levels, with the prime hovering just below 11 percent at year-end.

Not all the news is good, however. The outlook for capital investment has worsened, from 2.3 percent real annual increase anticipated in the previous survey to 0.2 percent now.

The NABE's projection for unemployment has also grown more pessimistic over the last four quarterly surveys. It is now expected to be 9.9 percent at year-end.

Current monetary policy is called "about right" by 69.6 percent of the respondents to the latest survey, down from 78.7 percent in November. Those who consider it "too easy" are up sharply to 22.7 percent from 8.3 percent.

Fiscal policy is considered too easy by 68 percent, down from 75 percent in November.

The federal budget deficit is expected to be within $20 billion of the administration's forecast for fiscal 1984 ($189 billion) by a majority of 56 percent. The idea of a standby income tax surcharge, as proposed by the Reagan administration, is rejected by 78 percent.

The 1981 Tax Cut Wasn't Really So Big

Members of Congress who complain that the nation "can't afford" the Reagan administration's "$750 billion tax cut" should take a closer look at it.

According to the fiscal 1984 budget, the revenue cost of the Economic Recovery Tax Act of 1981 will be $609 billion through fiscal 1986, not $750 billion.

"But that's just the beginning," says Kenneth D. Simonson, a tax expert at the U.S. Chamber of Commerce.

Simonson points out that ERTA was enacted on the heels of two major tax increases—windfall profits and Social Security—totaling $192 billion through 1986.

Following ERTA came three more big tax hikes: another round of Social Security increases, the Tax Equity and Fiscal Responsibility Act of 1982 and the Highway Revenue Act. Total: $241 billion. That makes the net tax relief since early 1980 only $176 billion, spread over five years.

Now assume passage of the tax increases proposed in the administration's budget for fiscal 1984. That's another $84 billion in taxes through 1986. Total net tax reduction: $92 billion.

But what about state and local taxes? They rose from 1980 to 1982. If they remain at the 1982 rate through 1986—a very conservative way to look at it—these taxes will be up $50 billion for the five-year period.

Grand total: $42 billion in net tax relief through fiscal 1986—an average of $8.4 billion a year, or only $36.50 per person.

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SMALL BUSINESS

Home Workers: Target for Unions

Some experts predict that as a result of the explosion in electronics and computers, up to 20 percent of all American workers will be working out of their homes by 1990. Opportunities will be greater than ever before for individuals to become entrepreneurs, operating their own home-based businesses and working as independent contractors.

But such a shift could spawn efforts by organized labor to require that work of many kinds be performed on an employer's premises. Anticipating such a move, business is trying to forestall it by scuttling a Labor Department regulation that already bars home work in a half dozen crafts.

The regulation originally barred home work in seven crafts, but in 1981 a ban on home knitting was lifted. The powerful garment workers union had wanted the ban enforced against a group of self-employed Vermont housewives.

Now the unions have turned their big guns on some Wisconsin women who embroider skirts. Says Steve Antosh, executive director of the Center on National Labor Policy, in Springfield, Va.: "Instead of keeping American jobs afloat, union heads and their friends operate like kamikaze pilots. They shoot down American jobs that later resurface overseas."

When the IRS Man Comes Knocking

Small business owners are more likely to be faced with an Internal Revenue Service investigation than most other taxpayers, warns *Small Business Tax Saver*, and this year the odds are even higher because IRS is launching a new drive to spot unreported income.

The monthly newsletter has this warning: If an IRS auditor shows up at your door, ask to see identification; he could be a special agent from the criminal division. Consult with your attorney before giving information to a special agent. You want to find out why you are being investigated.

That IRS auditor could be looking into possible criminal violations.

Watch the company you keep, the newsletter warns. If IRS has flagged your associates as possible tax cheats, you just might be swept up into a suspect group, even though you are as clean as the proverbial hound's tooth.

INTERNATIONAL

The Storm Brewing on Export Controls

Rodney Kennedy-Minott: Is the U.S. penalizing its own manufacturers?

Major controversy looms just ahead on Capitol Hill over the Export Administration Act, which Congress must reauthorize this year and which has fallen under heavy criticism from the business community. This 1979 law clamps federal controls on U.S. commercial exports of technologically sensitive products to trading partners who in turn might send them behind the Iron Curtain. Its intent is to keep the Soviets from latching onto developments that can be adapted to military uses.

The law gives the President the power to control commercial exports in order to advance U.S. foreign policy, but the Reagan administration has "invoked this authority arbitrarily, with inadequate justification," complains Donald J. Hasfurther, director of East-West trade affairs for the U.S. Chamber of Commerce.

Harsh administration of the law has penalized American manufacturers, who complain of long delays and bureaucratic snafus in obtaining export licenses for shipments of products that have no overriding strategic use importance, according to Rodney Kennedy-Minott, former U.S. ambassador to Sweden.

"One Swedish importer lamented to me," says Kennedy-Minott, "that so many restrictions are being put on American exporters that 'we have to start dealing with French or Japanese manufacturers to get our supplies.'"

But Sen. Jake Garn (R-Utah) has introduced a bill to set up a new Office of Strategic Trade—yet another agency to restrict U.S. exports.

Will New Rules Scare Foreign Investors?

Starting in 1980, U.S. real estate interests and investment communities that attract foreign money awaited regulatory action by the Internal Revenue Service on the Foreign Investment in Real Property Tax Act. When the action came late last year, it caused a furor.

In effect, the new FIRPTA regulations require financial disclosures from foreign investors—many of them major international investors who will balk at revealing details of their resources to Uncle Sam.

Complaints mounted quickly in the United States, too, especially from banks and law firms; they could be left holding the bag if foreign investors pull out.

Treasury Department officials held public hearings in February to air criticisms from home and abroad, and some FIRPTA regulatory revisions now seem likely.

LABOR

Giving Vietnam Veterans a Helping Hand

With President Reagan on hand, Samuel Bartholemew launches a jobs program.

A new volunteer program is mining the business community for Vietnam veterans who can help their comrades find jobs and adjust successfully.

Since it was started by President Reagan in November, 1981, the Vietnam Veterans Leadership Program has grown from six pilot projects to 38 projects. About 1,500 unpaid volunteers have given 75,000 hours of their time to improve the lot of Vietnam veterans.

Addressing veterans at the ceremony inaugurating the program, Samuel W. Bartholemew, Jr., an Army combat veteran of the Vietnam War and a partner in a Nashville law firm, stressed that veterans "form much of the nucleus that is the country's future leadership." Bartholemew is chairman of the Tennessee VVLP.

VVLP has been designed as a short-term, hands-on, volunteer effort to "heal the wounds now."

Various VVLPs around the country are finding employment for veterans (1,500 jobs so far), assisting small business development and hosting educational seminars on business and health.

Each local project gets about $32,000 a year from the federal government.

Harbor Workers' Act Benefit Reform Seen

Reform of the Longshoremen's and Harbor Workers' Compensation Act could become a reality soon if limited opposition in the House of Representatives is overcome.

The 1927 act, originally intended to provide job-injury protection for certain maritime employes working on navigable waters, has been extended over the years to include a much larger number of workers. The act has caused enormous insurance cost increases for already hard-pressed industries as well as confusion and duplication of coverage.

A business coalition spearheaded by the U.S. Chamber of Commerce is seeking to cap the growth of longshoremen's benefits—now as much as $524.70 a week tax-free—and to eliminate coverage of employes who are not subject to the special hazards of working on navigable waters.

Both aims would be furthered if legislation now being negotiated in the House is passed. Bipartisan support for reform of the 1927 act already exists in the Senate, which passed a reform bill of its own last July.

The bill that passed the Senate in 1982 was reintroduced early this year, with Sen. Edward M. Kennedy (D-Mass.) and Sen. Don Nickles (R-Okla.) as its principal sponsors. The shipbuilding and stevedoring industries have expressed cautious optimism that a reform bill will be passed by both houses this session.

ENVIRONMENT

At EPA, Farmers Get a Stronger Voice

The agricultural community now has a stronger official voice at the Environmental Protection Agency, thanks to the appointment of Nathan Chandler as agricultural ombudsman.

Chandler, a longtime apple grower, has been with EPA as an agricultural consultant since 1975, after serving as Massachusetts' agricultural commissioner for six years.

He says the ombudsman role was added to his other responsibilities as a signal to the agricultural community that EPA is aware of the precarious economic plight of farmers and ranchers.

As ombudsman, Chandler provides liaison with groups like the American Farm Bureau and the National Cattlemen's Association and brings their concerns to the attention of the EPA administrator.

The vast majority of the issues Chandler deals with involve pesticides and farm chemicals; he is on the immediate staff of the assistant administrator for pesticides and toxic substances. A typical problem: getting emergency exemptions for the use of restricted chemicals when a farm area is in severe economic jeopardy.

The new organizational move is also intended to provide a channel for input from the agricultural community as EPA considers drafting new regulations.

How U.S. Companies Clean Up Overseas

Two U.S. waste collection and disposal companies have found a promising market in developing countries. Browning-Ferris Industries, Inc., of Houston, Tex., and Waste Management, Inc., of Oak Brook, Ill., have contracted with cities in South America and the Middle East. They are providing public sanitation services like street sweeping, collection of household and industrial wastes, and construction and operation of sanitary landfills.

The cities—Buenos Aires and Cordoba in Argentina, Caracas and Maracaibo in Venezuela, Jeddah and Riyadh in Saudi Arabia and the municipality of Kuwait—stand to gain substantially. Thousands of workers are being trained by the American sanitation companies, and the quality of life in these cities has been upgraded.

In several cities the U.S. companies have entered into joint venture partnerships with local companies, exposing them to sophisticated management skills and technical know-how.

Local manufacturers have benefited, too, by receiving orders for equipment used in the collection and disposal of wastes.

A U.S.-Argentine firm's garbage trucks parade through Cordoba, Argentina.

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What America needs is less bull and more Bulldog.

Solar Energy Gets a Warmer Embrace

Solar generators like this one at the government's Sandia facility in New Mexico may get a boost from a shift in Reagan administration policy.

A slight tilt toward developing solar power and stressing more energy conservation has been ordered by new Energy Secretary Donald Hodel. Still, there are indications that Congress will force expenditure of even greater sums for solar power and conservation than Hodel requested in his fiscal 1984 budget.

Telling energy panels on Capitol Hill he wants a more balanced approach, Hodel increased the administration's $22 million budget for conservation to $101 million and asked for $102 million, up from $79 million in 1983, for more research into developing solar and other renewable energy sources.

Congressional proponents of fuel saving and use of solar power are still skeptical. Last year they increased former Energy Secretary James Edwards' conservation budget to $410 million and his solar power and renewables request to $253 million. Harsh budget constraints prevent too much generosity this year, but predictions are that even Hodel's requests will be boosted.

An Energy Department insider says the changes announced by Hodel do not represent a departure from the Reagan philosophy that the marketplace should be the principal stimulus to conservation habits.

Gas Plan: Something For Everybody

The Reagan administration's natural gas deregulation proposals generally please producers, distributors and commercial customers all along the well-to-consumer pipeline. Still the proposed compromise is just that, meaning everyone affected has been asked to take the bitter with the sweet. Intense wrangles are expected in Congress.

Distributors, mostly represented by the American Gas Association, do not want the less expensive "old gas" that they buy from pipelines and sell directly to users to be deregulated. They fear the prices of this gas, discovered before 1978, will climb with decontrol. Producers favor lifting controls.

Producers, on the other hand, oppose capping "take-or-pay" provisions of contracts under which pipelines must buy high-priced "new gas" even if the pipeline companies find cheaper resources.

The Natural Gas Consumers Information Center, which represents the country's biggest gas buyers, applauded President Reagan's decontrol-by-1986 plan: "It will lead to benefits similar to those achieved when oil prices were deregulated."

A Union Carbide official summed up the view of many. Consumers, he said, "are suffering from a lack of competition and from interference with supply and demand forces that result from well-intended but counterproductive government regulation" under the existing law.

A Mixed Message for Home Buyers

There is good news and bad news for prospective home buyers who will be looking to the Federal Housing Administration for mortgage loan assistance this year.

On the positive side, one of the administration's budget goals for fiscal 1984 is to eliminate the Housing and Urban Development Department's authority to set the FHA interest rate.

Now, because HUD keeps the FHA rate below market levels, lenders employ a complex system of discount points (one point equals 1 percent of the mortgage amount) to provide adequate yields to mortgage investors. Sellers are forced to raise the prices of their houses to cover the points that are charged to them, and home buyers are penalized with higher costs.

The administration also wants to lower the FHA down-payment requirement for first-time home buyers so that more people can qualify for FHA loans.

On the bad news side, the budget would reduce FHA's credit ceiling $6 billion, to $39.8 billion. The ceiling for the Government National Mortgage Association's mortgage-backed security program would be cut $10 billion, to $58 billion.

Through the GNMA program, mortgages originated by private lenders are pooled and securities are issued and sold to investors, thus generating additional mortgage funds.

No Merger in Sight For Bank Agencies

Don't look for Congress to consider the consolidation of the federal banking regulatory agencies and their insurance units this year.

The reason, according to Capitol Hill sources, is a host of more pressing matters confronting the House and Senate banking committees. These high-priority items include banks' international lending practices, reauthorization bills, the nation's fiscal and monetary policies, state usury ceilings, and possible changes in the Glass-Steagall Act (which separates commercial from investment banking) and the McFadden Act (which bans bank and thrift interstate branching).

A task force chaired by Vice President George Bush and including banking agency heads and White House officials will soon recommend legislative action on the consolidation issue. Speculation is that the task force will propose stripping the Federal Reserve Board of most of its supervisory and regulatory authority, leaving it to concentrate on monetary policy.

John R. Shad, chairman of the Securities and Exchange Commission, believes that consolidating bank-regulation functions in one agency is "fine but politically hard because each agency has its own separate, powerful constituencies."

Should the Federal Reserve Board lose its regulatory powers over banks?


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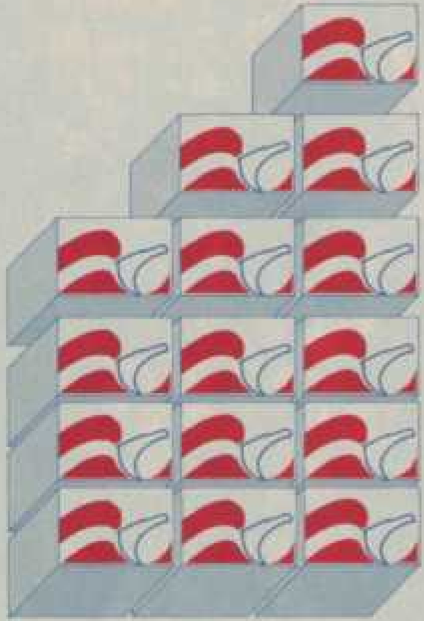

71st Annual Meeting

Chamber of Commerce
of the United States
May 1, 2, 3, 1983
Washington, D.C.

Sunday, May 1

"It's Your Business"
1:30-2:30 p.m.
Chamber's nationally syndicated TV program "It's Your Business" (on 154 commercial TV stations) will be taped in our studios. Be a part of the live audience (seating limited). Topic: "Reaganomics: A Success or Failure?" Participants: Top level people on both sides of the question including Chamber President Dick Lesher.

Open House Reception
2:30-3:45 p.m.
Meet the Chamber's officers and other delegates. Come to the Hall of Flags for this social event.

ACCE Building Dedication
3:45 p.m. (Buses Leave)
The American Chamber of Commerce Executives dedicate their new building in Alexandria, Virginia. Transportation available for those members of ACCE who wish to attend.

71st Annual Meeting Reception and Dinner-Dance
6:15 p.m.-Midnight
This year, our entertaining starts the Annual Meeting. Excellent food, a chance to mix with old and new friends, an outstanding guest list of Washington luminaries, dancing, and top-flight entertainment.

Monday, May 2

Small Business Breakfast
7:00-8:30 a.m.
This traditional breakfast session will focus on "The 1984 Small Business Party Platforms," featuring those who can tell you where the Democratic & GOP platforms are headed.

"Building Tomorrow Together"
9:00-11:00 a.m.
Let the drums roll, the trumpets blare, the flags unfurl as the excitement mounts at the Constitution Hall opening session. Chairman Bob Thompson will keynote and President Reagan has been asked to speak, as he did last year.

Chairman's Luncheon
12:00 noon-2:00 p.m.
We will focus attention on those issues relating to the industrial development of America. The program will include the traditional "passing of the gavel" from the outgoing to the incoming chairman.

The Chamber of Commerce of the Future
2:30-4:00 p.m.
At this session, we will look into the future and what the role of state and local Chambers should be in the 80's and 90's—further discussion at Tuesday's workshops. We will also unveil a new advertising campaign to help state and local chambers.

State Congressional Receptions & Dinners
Evening (Various Locations)
For detailed information write to the U.S. Chamber of Commerce. Ticket prices arranged by state chambers and associations.

Tuesday, May 3

This is an Optional Day at No Extra Cost for Those Who Want to Participate

Continental Breakfast
8:00-9:30 a.m.
Breakfast at the Chamber Building. Participate in a special program of interest to chamber and association volunteer leaders and staffs.

Workshops or Capitol Hill Visits
9:45 a.m.-12 noon
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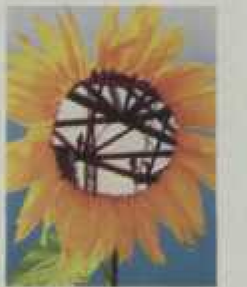

Environmentalists Take the Offensive

Disarray at the EPA could create an opening for restrictions that stall the business recovery.

By Henry Eason

ENVIRONMENTALIST groups are on the march. They will use the Environmental Protection Agency controversy and the aid of newly elected allies in the House to press for tighter restrictions this year as Congress reviews the nation's fundamental pollution control and conservation laws.

Business' long-cherished hopes of seeing more economic realism in environmental regulations are fading. In fact, many fear that costly new restrictions could cause a budding business recovery to wilt.

"The environmentalists will seize the initiative," says Rep. Thomas Bliley (R-Va.), a probusiness member of the important House Health and Environment Subcommittee. "They'd be foolish, from their point of view, if they didn't."

"We feel we are definitely on the offensive," says National Wildlife Federation lobbyist Steve Howard.

Harvey Alter, manager of the resources and environmental quality department of the U.S. Chamber of Commerce, reviews the outlook from a business perspective and concedes, "Right now there are no business initiatives on environmental issues because the current turmoil has taken environmental leadership from the EPA." It would be "less than prudent," Alter says, for industry groups to make insistent demands on Congress until the dust settles. Meantime, he says, "it is possible for Congress to pass laws more restrictive than ever before—more restrictive than needed to protect the environment and public health."

Warns Daniel Cannon, a veteran environmental law specialist with the National Association of Manufacturers: "Anything is possible. It's going to be difficult."

Environmentalist groups keep painting business people as polluting ogres—resulting in a polarization that dims prospects for reaching acceptable solutions to problems that involve all segments of society. The polarization is doubly unfortunate because business people, too, support clean air and water and safe disposal of wastes. As Sen. Patrick Leahy (D-Vt.), a champion of environmentalist causes, readily concedes, "Most good business organizations are basically environmentalists."

Ironically, last year economic realism had the edge. It was only by what Rep. Robert Whittaker (R-Kans.) calls "obstructionist" tactics that environmentalist groups were able to foil private sector goals.

BUT THAT WAS before the elections produced 26 additional Democrats in the House, many of whom stumped for more stringent pollution controls. And it was before the simmering controversy over EPA's management of its toxic-waste Superfund cleanup program became a full-blown national firestorm that threatens to obliterate administration plans for reform of environment regulation.

This year, poll- and constituent-sensitive lawmakers, including many Republicans and some Democrats that business had relied upon in the past, are fleeing from the "dirty air" and "dirty water" labels environmentalists are quick to slap on opponents' backs.

EPA official Leland Modesitt says,

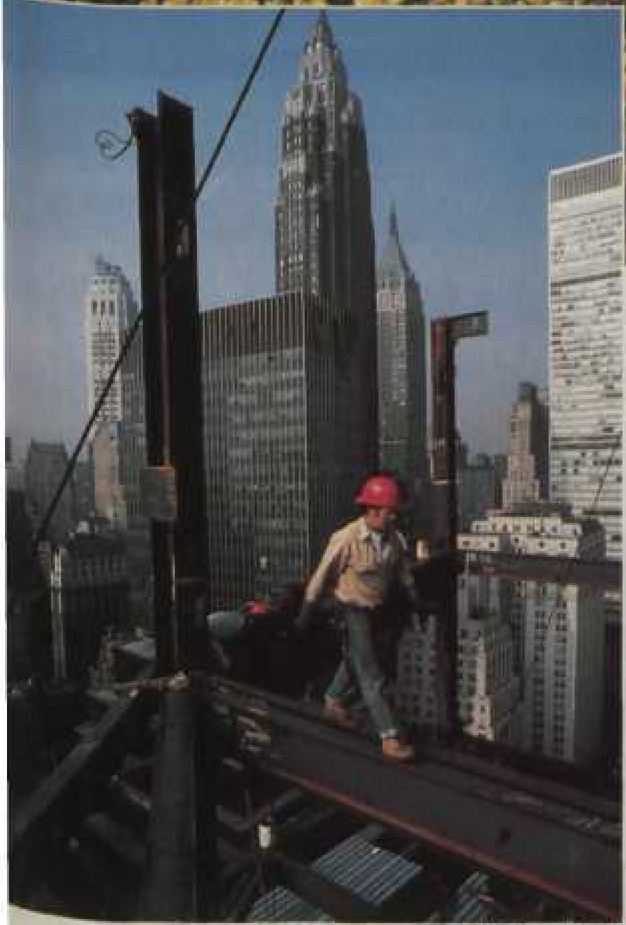

PHOTO: ANDY LEVIN—BLACK STAR

Business argues sensible controls will allow both industry and the environment to thrive. The scenes: a pollution-cleansed mill in California; New York City construction.

"Any time you want to change an act, anybody opposing the change will call it 'gutted' or 'dirty air.' Nobody wants to get caught politically in that posture."

Suffused with emotion and publicity, environmental issues that require careful, reasoned statistical reviews may not get them. Arguments for linking environmental controls with economic resurgence, twin objectives of business, may be shouted down.

EPA's Modesitt forecasts that this year environmental issues will be discussed "in a political manner, rather than substantively."

Also, the growing belief among many that President Reagan is weak on environmental protection could become a partisan sword in the 1984 presidential election.

"Democrats have been looking for something similar to Watergate; now they've got 'shreddergate,'" says, Jeffrey Conley of the business- and labor-sponsored National Environmental Development Association. (EPA officials were accused by some critics of shredding documents that had been sought by Congress.)

More bluntly, Environmental Study Conference Director Ken Murphy says, "Democrats see blood and they're smacking their lips." Murphy's group is made up of congressmen concerned with promoting pollution control.

Sen. George Mitchell (D-Me.), ranking Democrat on the Environmental Protection Subcommittee, believes Reagan's environmental image "could have a devastating effect on him."

Mitchell asserts this image will drive the President toward a more environmentalist posture as the fight intensifies. In fact, the senator says he senses a shift beginning with the administration's announcement that it will spend $33 million to relocate residents of dioxin-contaminated Times Beach, Mo.

However, the NAM's Cannon says, "If some atrocious acid rain proposal passes that would wound the economy, the President would veto it. That's the one backstop we have."

That backstop, observers of the broader political landscape maintain, may be less than dependable when Republican campaign managers consult public opinion polls that have been showing a marked proenvironmentalism trend since the environmental movement gained strength in the 1970s.

ENVIRONMENTAL LOBBYISTS—there are hundreds in Washington—"are exceedingly powerful," says House Health and Environment Subcommittee member Whittaker. "A number of politicians make careers of championing environmental causes. Light-switch robots. Just flip them on and off."

House Energy and Commerce Committee Chairman John Dingell (D-Mich.) recently told a U.S. Chamber audience that Congress could react to the EPA Superfund controversy in a "panicky fashion" and needlessly "preclude some jobs and economic growth."

Still, there are some signs that business could get a fair hearing.

Sen. Robert Stafford (R-Vt.), chairman of the Senate Environment and Public Works Committee and a conservationist, insists he is not "a confrontational animal." Stafford will emerge this year as the major agenda-setter during congressional debates over clean air, water and waste measures.

In an interview with NATION'S BUSINESS, he acknowledged that "maybe there is too much duplication" in the multilayered federal, state and local environmental rules. He promised to address the problem, taking care not to weaken overall laws.

Further, he called for a reduction in "high-decibel rhetoric" that customarily swirls around these issues, and he stressed his desire for "accommodation" among all parties.

Mitchell, often a Senate ally of Stafford's, says business people "do not disagree with the fundamental thrust of environmental legislation. They don't want to go back to the days when people dumped anything into the rivers. They complain most not about the laws but their implementation. Sometimes they're justified. Sometimes officials will not use common sense."

A business lobbyist confides that business is primarily concerned this year about untangling itself from expensive red tape, unenforceable timetables and counterproductive procedures.

Regulatory vagueness, involving billions of dollars in cleanup efforts, continues to bedevil businesses trying to comply with federal rules, chiefly because EPA has proved sluggish in de-

A protracted battle over wilderness area designations shows no sign of ending. Balanced-land-use advocates are pitted against environmental purists.

PHOTO: DAVID R. FRAZIER

fining industries' obligations. "There is enormous uncertainty created by EPA as it is now," says Mitchell. "Business does not like uncertainty."

A business expert says, "Uncertainty comes from many sources: Not just EPA taking a long time to issue regulations, but Congress delaying a year or more in reauthorizing legislation and environmentalists' lawsuits filed by the dozens. All of that makes business people wonder whether they should invest or wait."

THE MOST CONTROVERSIAL environmental issue on Congress' agenda this year will be the effort to reauthorize the Clean Air Act. A Stafford amendment to reduce acid rain by cutting sulfur dioxide emissions will be the main lightning rod.

There is a causal relationship between sulfur dioxide and some other emissions and acid rain, but the relationship is not understood. For example, it cannot be predicted that halving emissions will halve the acid rain.

The irony of this, business maintains, is that there is no guarantee that if it spends huge sums, acid rain levels will drop. Stafford proposes reducing sulfur dioxide by 8 million tons over a decade. Estimates of the cost range from $3 billion to $5 billion.

Sulfur dioxide emissions are expected to decrease anyway by the early 1990s as many old plants are replaced with new ones that have more effective control devices.

Environmentalists believe they have the clout to push through some form of acid rain rider on the Clean Air Act, but fierce floor fights are expected, with many lawmakers from the populous Midwest and Northeast opposing it.

The National Environmental Development Association's Conley cautions that heavy acid rain strictures would mean "utility rates would go through the roof" and would "dampen the market for coal with high sulfur content."

Industry experts also fear that Congress will continue the Clean Air Act's mandate of the kinds of technology used to lessen air pollution in pristine regions, like wilderness areas, instead of allowing business to install other, less costly equipment that will produce the same control effects. Existing guidelines, one expert says, produce " a bias against building new plants." Allowing industry to use "best available technology" would "hasten the departure of older, dirtier plants," he says.

Stafford and his allies say they will stick to the basics of the present Clean Air Act if they can win new acid rain controls.

The Clean Water Act is also up for renewed consideration this year, but insiders doubt there will be a major push to re-enact it until the Clean Air Act fight is resolved.

Environmentalists, says Rep. Thomas Bliley, would be foolish if they did not seize the initiative on legislation.

PHOTO: DAVID VALDEZ

Sharon Newsome, a National Wildlife Federation lobbyist, says environmentalists will try "to tighten controls on agricultural, street and dam runoffs. Those runoffs are half the problem."

Manufacturers want a lengthening of compliance deadlines that they insist are too rigid. They also want the present law's pretreatment feature abolished. This regulation requires that liquid waste be cleaned before it reaches municipal sewage plants. Business prefers that local governments assume greater responsibility for cleansing water.

But the National Wildlife Federation charges that "this would transfer cleanup costs from industry to taxpayers."

EPA has proposed dropping existing uniform requirements for pretreating toxic chemicals and transferring more protective functions to local governments. It also asks that deadlines be extended for installation of industrial cleanup equipment that filters toxic wastes in water discharged directly into streams and rivers.

BUSINESS GROUPS and the administration are also anxious for an easing of Army Corps of Engineers regulations restricting dredging and filling in wetlands. Conley contends that the corps' "review process is complicated and time-consuming." He predicts, though, that "if we try to make any changes we will look as if we are trying to hurt wetlands," and he says he is unsure of the outcome on this issue.

A long battle will continue over so-called wilderness designations, which put land off limits to almost anything but backpacking. (No motorized vehicles are allowed.) Although the original wilderness law permitted some business uses, such as exploration for oil and gas, environmentalists have con-

Manufacturers want a pretreatment requirement for liquid waste abolished. The scenes are outside and inside a Chicago liquid-waste processing plant.

PHOTOS: KEN WHITMORE—IMPACT

stantly opposed permitting this part of the law to take effect.

The wilderness issue pits growth against no-growth. In question is whether society should have access to wilderness lands' mineral wealth, even though environmental protection laws are followed. Some 100 million acres in the lower 48 states, and another 100 million in Alaska, have been declared wilderness areas.

Environmentalists are expected to raise the flag against Reagan's natural resources and ecology protection budgets, down almost $2.3 billion or 20.7 percent from the $11.23 billion in appropriations for fiscal 1983.

David Lennett of the Environmental Defense Fund says he and other environmentalists think one reason for the stingier budgets is a desire at EPA to step back from full enforcement of existing laws by reducing staff.

The biggest administration-proposed reductions are in the soil conservation, mining research, environmental research, state grants and parkland acquisition areas. Reagan has asked for spending hikes for Western water projects, Superfund's toxic-dump cleanup program and state mining reclamation projects.

Beyond the specific squabbles before congressional subcommittees, many people are calling for a broader accord on the environment that would enlist business and the public in an economically realistic new campaign.

In a review that urges more state control, greater flexibility and more imagination in confronting pollution, the Heritage Foundation concludes that the present system "is a thicket that needs drastic pruning." The nation, the foundation says, "measures our progress not in cleaner air and water but in permits issued, lawsuits filed and fines collected. It has placed a higher social vaue on new laws than on new technology. It has buried environmental goals in an avalanche of regulations." □

Battle Plan
For Business in Politics:
STAND FIRM

"Once you try to compromise," a conservative congressman says, "you have lost the war."

By Rep. Newt Gingrich (R-Ga.)

MY FIRST BREAK with the Reagan administration came over the tax increase bill last August. I thought at the time it was wrong, and I still think so. Instead of the $3 spending cut we expected for every dollar of tax increase, we now anticipate only a 50-cent cut in spending for every dollar of higher taxes.

This society needs desperately to get back to being a saving society. And every step that discourages people from saving weakens us further in long-term economic growth. So it is vital that the business community and individual business people stand firm in support of the conservative beliefs necessary to achieve that growth.

Remember, there are plenty of politicians in Washington who are willing to compromise. Business does not have to try to anticipate them and do it for them. It is important that we in government have an opportunity to turn to business leaders to get accurate, sound, tough, honest advice about the economic impact of political decisions. I suggest you view yourselves as economic doctors who insist on giving the patient what he needs, not what he wants.

The minute business people try to anticipate politicians and give us political answers we have no yardstick. Now, that does not mean that the business viewpoint will always prevail. Politicians often cheerfully ignore business and go about doing stupid things. Politicians often make a mess of things. But the nation at large is helped if it can see a clear gap between the sound advice of the business community and the behavior of elected officials. And the nation at large is confused if it sees business leaders who try to anticipate, and behave like, political leaders.

The continued help of business in fighting for sound policy is vital because the nation is at a crossroads.

From January to August of 1981, it lived through a truly revolutionary period in the tradition of the early New Deal. We conservatives began to change the direction of federal spending, we changed the direction of national defense, we changed the pattern of regulatory bureaucracy, and we changed the pattern of taxation.

But from that point to the present, we have essentially been muddling. And we have failed on five counts:

- We scheduled the tax cuts for later, rather than early, so the impact won't be felt until this year.
- We presided over deflation that, because of Federal Reserve policy, was too rapid, leading to high unemployment, high levels of bankruptcy and considerable pain for almost everyone.
- We failed to cut spending. Despite all the rhetoric of the past three years, federal outlays are larger in dollars and larger as a percentage of the gross national product, and the patterns are still there for even higher spending.
- We lost the war for language to the liberals, who are talking about "the rich man's tax cut" and "draconian cuts in the budget."
- President Reagan, who had been governing successfully by appealing to the grass roots, began trying to govern in Washington.

That last point is crucial. If you have conservative values, you cannot govern from Washington. You can govern only by going to the nation at large. Washington is a large, open conspiracy to take away the money and freedom of the citizens of this country.

It is an association of

Rep. Newt Gingrich is now in his third term as the congressman for a district in west central Georgia. Before his election he taught at West Georgia College.

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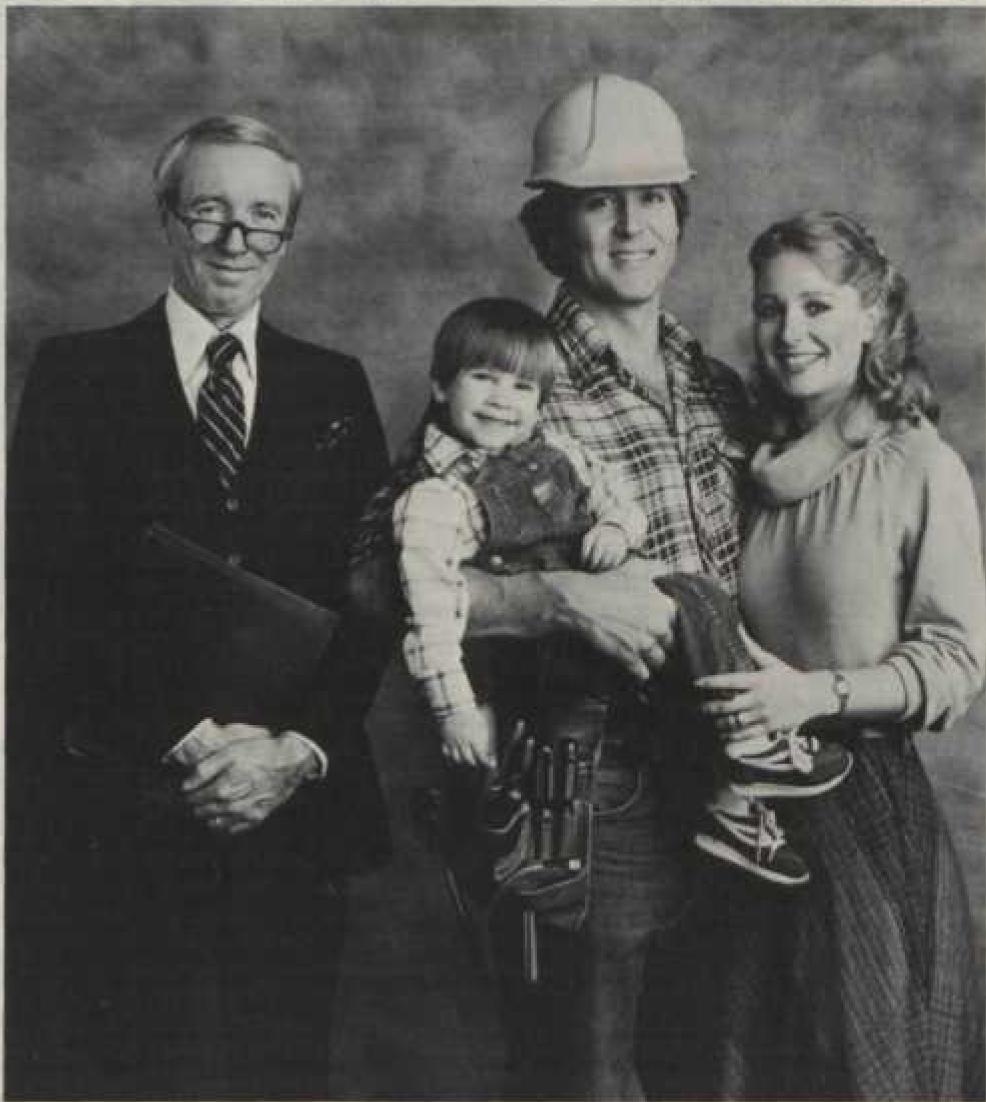

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So there are only two key questions in American life. The first: Do we change government or does government change us? The second: Does government cut its spending so that we can increase ours or do we cut ours so that government can increase its spending?

Simple questions, but the answers set the agenda for our public-policy debates, and the liberals are currently winning the argument. They are getting away with saying that spending is uncontrollable.

"The continued help of business in fighting for sound policy is vital," Rep. Gingrich declares. He urges business to continue telling Congress "the good things we should be doing."

If I walk in and tell you that we can't control any of the things I value and that we can only negotiate over the things you value, and you believe me, you haven't got a prayer. Try labor negotiations on that basis sometime: The union's demands are non-negotiable, and all the compromises will have to come from you. You automatically lose.

Well, liberals get away with it every day, possibly in part because they are in an alliance with labor leaders who sit down and tell them it will work. The American people at large aren't as tough as management.

WE ARE ALLOWING the liberals to gain power once again. They are saying, "Let's have a bipartisan compromise—we'll raise taxes." Now, the minute you accept that, you are negotiating as to how much of your money and how much of your freedom you are going to give up.

For example, a private sector jobs bill could cut red tape, provide tax breaks to entrepreneurs, spur housing and auto sales by avoiding increased government spending that keeps interest rates up, and stimulate development of high technology. All of that would increase jobs.

But nobody is going to offer a private sector jobs bill—that is outside the framework of Washington. So we will have a moderate jobs bill proposed at $3 billion and a liberal jobs bill at $7 billion, with both of them designed to create jobs that won't survive. Then we will compromise at $5 billion in bad medicine.

This article is excerpted from recent remarks to a meeting of the board of directors of the U.S. Chamber of Commerce.

Moderates in this setting are the people who articulate conservative goals and beliefs but who try to govern inside Washington. They believe that, in the end, you have to compromise inside Washington and that you have to govern within the values of that city, which is by definition impossible.

Imagine, if you will—and I think this is the most accurate way to explain Ronald Reagan's position right now—that Franklin Roosevelt had hired conservative advisers. And those advisers warned him against anything as radical as the New Deal. They told him, "We can't really do anything that involves a whole lot of churning and new ideas and new programs." Then you would have had a Franklin Roosevelt who was as articulate as the historic figure, but who was dramatically less effective at building a new majority.

I mention the Roosevelt experience

"Washington is a conspiracy to take away the money and freedom of the citizens of this country."

because, once you accept the idea that you are not going to change Washington, once you try to compromise, you have lost the war.

You are then negotiating over the surrender documents. That in large part is where we are now.

How do we reverse this situation? First, we must recognize that the basic conservative goal is the real change for which the American people called in 1980. To achieve that goal, business people should adopt this strategy:

- Do not allow the politicians whom you choose to manage your country to buy you off with totally phony changes. When they walk in and say, "It's the best we can do," suggest to them that if they were managing a football team, you would promptly fire them.
- Focus on positive goals. Build coalitions, demand a government that helps its friends. It is inexcusable that we avoid the old Roman rule of punishing our enemies and rewarding our friends. This administration consistently punishes the people most likely to have contributed to its election.
- Attack your opponents aggressively on local television or in any other setting you can get. It does not help us in the long run to allow them to push us off the center stage, claim our words, sound reasonable and in fact be totally deceptive.
- Focus on governing through the country, not through Washington. Don't worry about a tactical defeat in Washington if in the long run it sets the stage for you to win back home.
- Insist that the officials you are trying to help concentrate on measurable, long-term goals, not on trivial daily problems. Ask those officials how they are doing compared with a year ago. Is government any smaller? Are there fewer bureaucrats? Are we doing any better on the values that are important to us? Business people know how to do that in their companies. They have to learn how to do the same thing with the managers hired to run the government, including the politicians.
- Stay true to your beliefs. I do not need lessons on how to sell out. Washington offers them all over the place. I need lessons on how to stand firm. If the business leaders of America who believe in a balanced budget, lower taxes and free enterprise come to Washington and lose their morale and their will, then there is no rock I can cling to in a storm.

Remember, we politicians will figure out on a daily basis how to do the least bad thing we can do. But it really helps if you keep teaching us what the good things are that we should be doing. □

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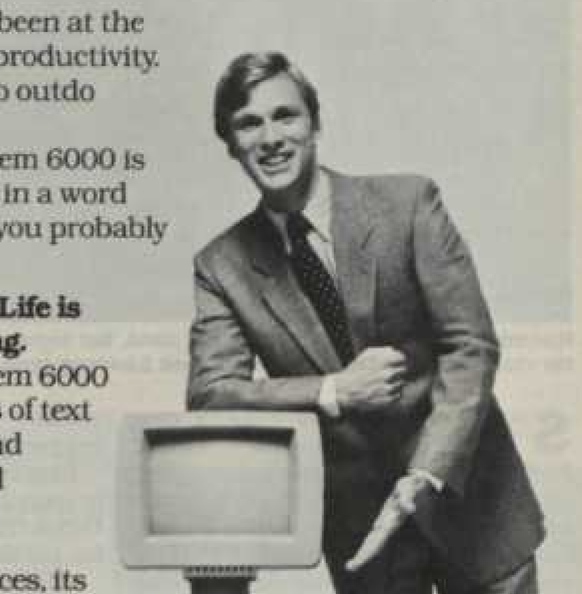

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It's Already 1984

Elections 19 months away are affecting policy decisions in Washington now.

By Seth Kantor

PHOTO: ROGER SANDLER—UNIPHOTO

Ronald Reagan hasn't announced his plans, but some of his closest associates think he will seek a second term.

The Reagan White House has not overlooked women voters—Elizabeth Hanford Dole has a new job in the cabinet.

SOON AFTER last November's congressional elections, Sen. Ernest F. Hollings (D-S.C.) made a surprising shift—quitting his post as ranking minority member of the powerful Budget Committee for a similar post on the less prestigious Commerce, Science and Transportation Committee.

For a man with the obvious ambition of running for President in 1984, Hollings appeared to be giving up a valuable national podium in exchange for a committee with lower visibility and far less clout.

But things are not turning out that way in 1983. Hollings has become a major voice on a panel that deals with trade policy, high-technology industries and communications. Hollings, fiercely opposed to many of the Reagan administration's initiatives, intends to make the Commerce Committee a battleground on the issue of deregulation.

Hollings' shift is only one example of the maneuvering that is under way on Capitol Hill in preparation for the 1984 elections.

Well aware of the election campaign's potential impact on policy decisions, President Reagan emphasized conciliation instead of confrontation in his January budget message to Congress. He approved, for example, a bipartisan approach to Social Security reform and a multibillion-dollar jobs bill. And although he resists the Democrats' efforts to roll back the tax relief enacted in 1981, he has offered a plan for standby tax increases that would be triggered by excessive deficit levels.

Reagan has softened his once strongly partisan approach toward House Democratic leaders, catching Washington politicians by surprise.

"Had Reagan resumed his 1982 intractability," says veteran Washington consultant Horace Busby, "his party's seniors believe the Republican Party could very well have headed toward disaster."

Busby is a political analyst for business clients and was Lyndon Johnson's special adviser on foreign trade issues at the White House. He says President Reagan realizes something many on the nation's East Coast have so far failed to see. For the first time, Busby says, effective control of the House has shifted to the sun belt and Western states, as it already had in the Senate. The President is reshuffling his political positions to appeal to those in control of both houses of Congress.

What does all this mean for Reagan's political plans in 1984? Presidential Counselor Edwin Meese suggests privately that Reagan will announce his intentions concerning a second term before Congress returns from its summer recess. Meese predicts his boss will run.

David Gergen, presidential communications director, is also among those in the Reagan inner circle who are confident that Reagan will become the first President since Dwight D. Eisenhower to serve two full terms.

Those close to the President say he has staying power because he is more pragmatic than Jimmy Carter, more dynamic than Gerald Ford, more credible than Richard Nixon, less governmental than Lyndon Johnson and more old-shoe than John Kennedy.

"This man feels very comfortable with power," Gergen says of Reagan. "His ego doesn't need that [power]. Consequently he's aged much less in office than others before him in the past two decades."

Gergen says the President works out with weights each day in the upstairs solarium of the White House and has added more than an inch to his chest in the past year.

MORE VISIBLY, Reagan has put three energetic, bright women in key federal posts—Sandra Day O'Connor on the Supreme Court, in 1981, and Margaret Heckler and Elizabeth Dole in his cabinet, in 1983—muting complaints that the President is insensitive to equal rights for women.

In March, soon after she had become Transportation Secretary, Dole moved swiftly to rid Washington of one of its worst eyesores. At a cost of $188 million over 15 years, the government had converted the city's massive Union Station into an architecturally unsafe National Visitors Center; the building has been closed to the public two years.

Dole has committed $70 million toward reconverting the building into a

on the Political Front

railroad station and commercial business center that she promises "will become a showcase of the Reagan administration."

The showcase won't be completed until 1988. Will Reagan be ending a second term then? The way Congress handles the fiscal 1984 budget, Social Security reform and the jobs bills will bear directly on the Reagan decision to run again or not, as will the state of the economy.

FOR ITS OWN REASONS, the Democratic side of the Senate has become a hotbed of concern over the 1984 presidential election. Democratic Sens. Dale Bumpers of Arkansas, Alan Cranston of California, John Glenn of Ohio, Gary Hart of Colorado and Hollings hope to win friends and influence legislation in their quests for the White House or the Vice Presidency in 1984.

Across the aisle, senators are preoccupied with maintaining the status quo. Nineteen Republican-held seats are up for election next year, including those held by eight committee chairmen. The Democrats need a net gain of only five seats in 1984 to recapture control of the Senate.

Democratic National Committee Chairman Charles T. Manatt says one of the seats his party expects to capture is the one from Tennessee being vacated by Majority Leader Howard Baker. Manatt says Rep. Albert Gore, Jr., (D-Tenn.) is an early favorite to replace Baker, who has said, "I just don't want to grow old and die in the Senate."

Baker and Vice President George Bush would be the two front-runners for the GOP presidential nomination should Reagan decide to retire after one term.

And as the White House and the different factions in Congress jostle for position in the spring of 1983, what is in store for American business on the legislative front?

"Business is going to need a damage-control policy on Capitol Hill," predicts Rep. Tom Corcoran (R-Ill.), a strong backer of the business community. Pointing to solid gains by Democrats in the House in last November's elections, Corcoran says, "If business interests couldn't make modifications in the Clean Air Act during the 97th Congress, how could they possibly hope to in the 98th?"

LEGISLATIVE ISSUES likely to come up in the 98th that are vital to business interests include a minimum wage increase, a subminimum wage rate for youths, regulatory reform, product liability reform and small business tax relief.

John L.K. Thomas, manager of the U.S. Chamber of Commerce's Congressional Action Services, is optimistic that both the Senate and the White House will again push for legislative gains for American business if enough of an upturn in the economy occurs in the next 12 months. □

The Early Starts of Latter Days

Over the years, the American presidential election campaign has changed from a 50-yard dash to a long, tedious marathon run.

Compare the season of 1983-84 with the way things were just a generation ago, in 1951-52.

Harry Truman was President in 1951. He was eligible to run for reelection in 1952, but would he run?

The Truman administration was beset then with charges of corruption, heavier tax burdens and wage freezes. There was no word from the White House about what Truman would do in 1952.

Through most of 1951, there were no other announced candidates for the White House, no mass-mailed solicitations for campaign funds, no campaign speeches.

As late as the winter of 1952, there was no rush of candidates, except for Sen. Robert Taft (R-Ohio) and Sen. Estes Kefauver (D-Tenn.). Finally Dwight D. Eisenhower agreed to a draft by GOP supporters. Democratic elders drafted the reluctant Illinois Gov. Adlai Stevenson.

A great part of Eisenhower's charm was that he was not a professional politician. And Stevenson, who ultimately lost the short 1952 presidential race to Eisenhower, campaigned with such modest pronouncements as "better we lose the election than mislead the people."

Today's emphasis is on winning the election. By March, 1983—19 months before the presidential vote—there were four official Democratic candidates and that many more ready to announce.

One of the candidates, Walter F. Mondale, seemed a generation apart from Stevenson when he said, "I know the White House. I know how to manage.... I am ready to be President of the United States."

Even a special congressional election in a largely rural district of Texas and a local primary election for mayor of Chicago—both of them in February—were widely reported as being potentially important in advance of 1984.

In the Texas election a relatively junior congressman, Phil Gramm, switched his party affiliation from Democrat to Republican and won.

Walter Mondale is on a marathon run for the Presidency.

In Chicago a black congressman, Harold Washington, won the Democratic primary against heavy odds, showing what well-organized black precincts could accomplish. He defeated Mayor Jane Byrne, who was endorsed by Sen. Edward M. Kennedy (D-Mass.), and Richard M. Daley, who was Mondale's candidate.

The 1984 elections are a long way off, and anything might happen. So far it looks as if Mondale may be ready for the White House, but not for Chicago.

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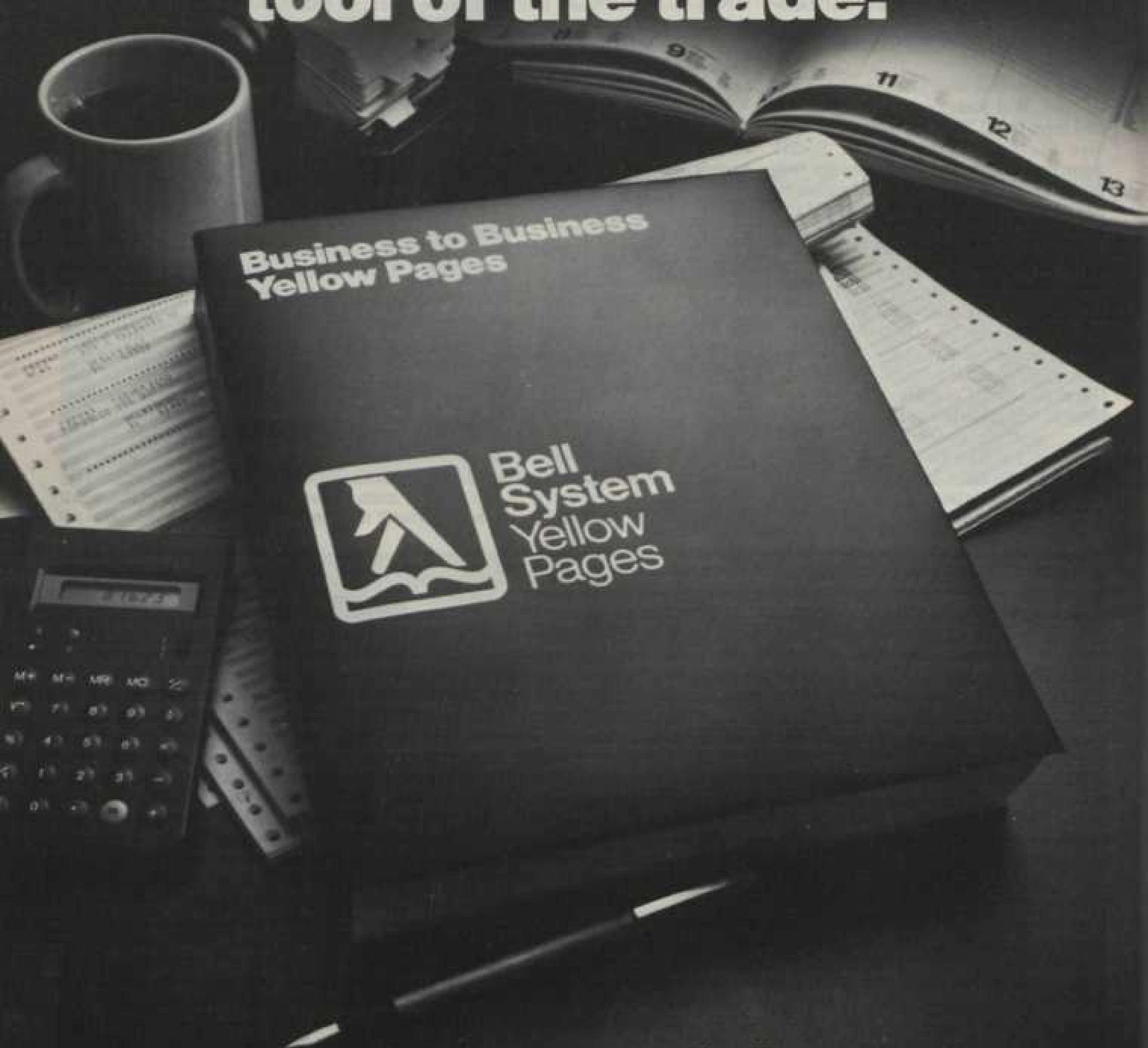

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Business to Business Yellow Pages

Defense-Deficit Dilemma

The issue no longer seems to be whether to cut the Pentagon budget, but where and by how much.

Sen. John Warner (top) opposes a military pay freeze and proposes, instead, an overall force reduction. Rep. Samuel Stratton fears budget cuts will perpetuate Soviet strategic nuclear weapons superiority.

PRESIDENT REAGAN may have to prove that guns mean butter—or rather jobs—before he can sell Congress on a 10 percent increase in military spending in fiscal 1984. Many members of Congress complain that the $274.1 billion proposed for defense cannot be justified when the federal budget as a whole may wind up more than $200 billion in the red.

The expected deficit is "a tank coming down the road that is not waiting for anybody," warns Sen. John Warner (R-Va.), chairman of the Senate Subcommittee on Strategic and Theater Nuclear Forces and a frequent "aye" vote for Pentagon requests.

Says Warner: "The deficit is more destructive than any enemy we face. National defense cannot be stronger than the economy on which it rests."

Most in Congress who have joined the great defense debate of 1983 maintain that the country simply cannot afford President Reagan's rearmament program. "The antimilitary attitude we're finding today is not what it was after the Vietnam War," says Rep. Dan Daniel (D-Va.), chairman of the House Subcommittee on Readiness. "This is a matter of economics."

Supporters of increased defense spending are beginning to offer economic as well as military arguments.

"Defense spending has a very positive impact on the economy," asserts Sen. John Tower (R-Tex.), chairman of the Senate Armed Services Committee. "It creates jobs and actually returns about 46 percent of our investment to the Treasury as a result of multiple layers of taxation. . . . Reductions in defense spending will only put more people out of work [and] weaken our defense posture."

Defense Secretary Caspar Weinberger, touching on this theme during testimony to congressional committees, has insisted that the prospective deficit is due chiefly to the ever higher demands of social programs. He notes that only 28 percent of the proposed fiscal 1984 budget is for defense, down from 40 and 50 percent in the 1950s and 1960s. And for every $1 billion in military expenditures, he says, about 35,000 jobs are created.

Arms purchases may indeed have helped the nation toward economic recovery. The Commerce Department reports that 80 percent of the orders placed by hardgoods manufacturers in December came from makers of military wares like aircraft parts, ships and communications equipment, rather than from makers of civilian goods like washing machines and desks. The trend was continuing early this year.

Congressional Budget Office Director Alice Rivlin, testifying before the House Armed Services Committee, conceded that for "the next few years, defense spending need not rekindle inflation or retard growth in overall employment."

Though grateful for any immediate contributions that military spending may make to economic recovery, others fear that in a few years defense production will run head-on into the demands of a reviving civilian economy. According to Joint Economic Committee staff member Richard Kaufman, this could overheat the nation's factories.

WITH A LOT OF IDLE plant capacity and high unemployment, Kaufman says, "expanding defense production can draw on our idle physical and human resources to meet increased demands for military products. As that idle capacity is reduced and demand for civilian products increases, there will be competition for resources—critical materials, production equipment and skilled manpower."

That scramble for resources, former presidential economic adviser Murray Weidenbaum recently told Congress, would cause production bottlenecks in both defense and nondefense industries.

The arguments over defense spending go beyond its possible effects on the economy.

Weinberger, testifying before the House Subcommittee on Defense Appropriations, declared that security considerations must come first: "The rapid and continuous growth of Soviet offensive military power does not allow us the option of waiting until after the economy recovers."

Gen. John Vessey, chairman of the Joint Chiefs of Staff, depicted in grim terms the growth of Soviet power, in remarks before the Senate Budget Committee. "Soviet weapons are good, and the extraordinary Soviet effort in research and development, over 50 percent greater than ours, should guarantee that their weapons will also be good in the years ahead."

Rep. Joseph Addabbo (D-N.Y.), the subcommittee chairman, is not persuaded by such arguments; he will try to cut $30 billion from the defense budget, precisely on the ground that security will not be lessened by such a cut.

"I've heard that tale before," he says

of Weinberger's testimony on the Soviet threat. "Why should we be afraid of the Russians and the Russians not be afraid of us? ... [The Russians] are just playing catch-up."

Asserting that the Pentagon is "out of control," Addabbo wants to end funding for two nuclear aircraft carriers, the B-1 bomber and the MX missile and to squeeze hard on what he describes as the Pentagon's wasteful "business as usual" weapons procurement.

Rep. Samuel Stratton (D-N.Y.), chairman of the House Military Nuclear Systems Subcommittee, takes bitter exception to Addabbo's views. The United States is "most vulnerable and most outgunned by the Soviets" in nuclear armaments, he contends. "They have essentially four MX systems. We're still fighting over one."

Addabbo and Stratton agree on one thing: Most of the 57 Democratic freshmen in the House were elected on platforms that promised to cut defense spending. The influx of cost-conscious congressmen could be decisive; as Stratton notes ruefully, proponents of a strong defense won their critical victories in the House last year by only two or three votes.

The new congressmen reflect a shift in public opinion against higher military spending. A mid-January Gallup poll indicates that as many as 45 out of 100 Americans now think the Pentagon is getting too much money, whereas only 14 percent believe that the armed services should be better funded. In 1981, at the peak of the public's endorsement of the Reagan rearmament program, only 15 percent of Gallup's respondents believed that too many federal dollars were going to defense.

Dovish sentiments are surfacing in other ways. Last November, more than 12 million people voted in referenda to freeze production of nuclear weapons. In February, 650 persons from 47 states met in St. Louis to map an ambitious campaign aimed at capping defense spending.

"We're losing our grass-roots support," Rep. Bill Hefner (D-N.C.), an advocate of a strong defense, told Weinberger.

The question is thus becoming not whether to cut the defense budget, but where, and by how much. Agreement is emerging that Congress is likely to cut the President's requested increase in half, so that military spending will grow by 5 percent in real (inflation-adjusted) dollars.

UNDER THE complicated Pentagon accounting system, the military budget can be reduced significantly in only a few areas, if real savings are to be achieved in a given year. Most large weapons systems proposed by the President will not be funded at high levels for years. Quick savings can come only from cutting the operations and maintenance accounts or the payroll.

The O & M accounts have traditionally borne the brunt of cuts in spending. Again this year, says a congressional defense aide, "O & M may come out as the bill payer" when the defense budget is cut. Cutting O & M weakens readiness by preventing repairs and maintenance and the procurement of spare parts and supplies that are increasingly needed as more complicated weapons come into service.

The other vulnerable part of the budget—the payroll—is already the target of a Reagan administration proposal to freeze military pay for a year. Sen. Warner, a former Navy Secretary, has proposed that, instead, the number of men in the armed forces be reduced by 5 percent.

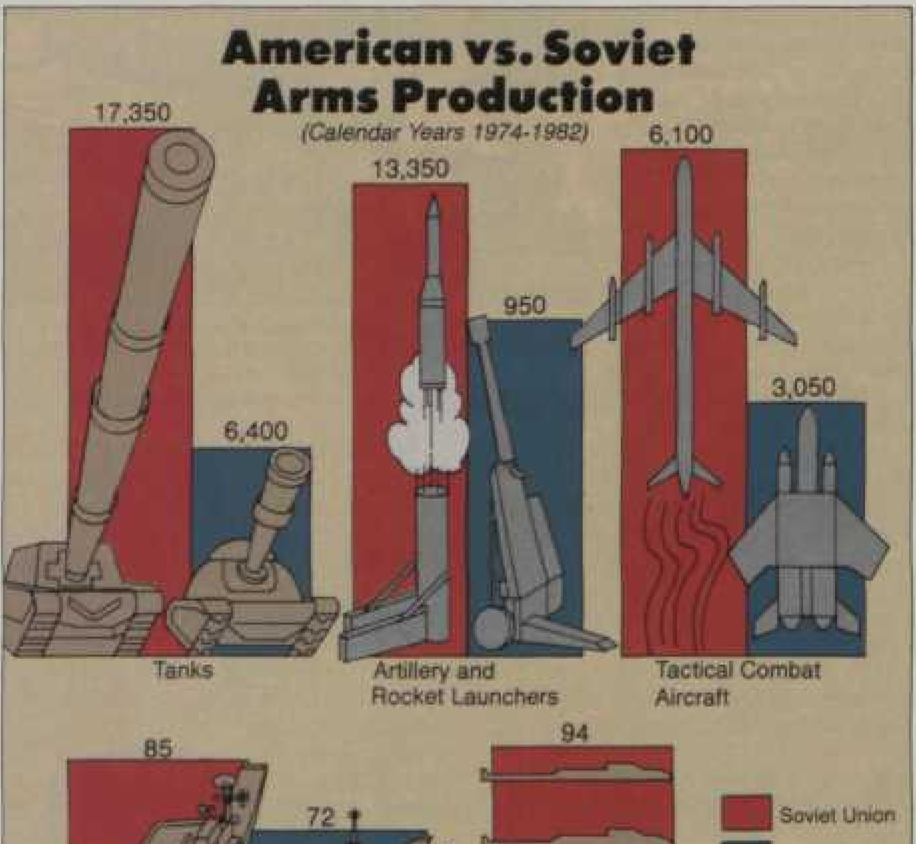
Rep. Daniel suggests that the United States could save money on defense if it didn't try to police so much territory. "We have agreements today with 43 different countries," he says. "If we are going to cut this budget substantially, we ought to take a look at our commitments and see whether we should reassess them."

Addabbo and others predict that Weinberger will be forced to return to Congress this spring with a list of cuts. If he does not, they predict, Congress will seize the initiative. "Whether he cuts or not," says Rep. William Dickinson (R-Ala.), ranking Republican on the House Armed Services Committee, "there is going to be a reduction by Congress."

The Pentagon and members of the House and Senate defense panels share a fear that the deals they make at the committee level will unravel when they reach the floor. Senators and congressmen who are less familiar with the intricacies of the military budget may play to the galleries by whacking away at the budget with meat-axes.

Even Addabbo concedes that such wholesale cutting could be "dangerous." □

—Henry Eason



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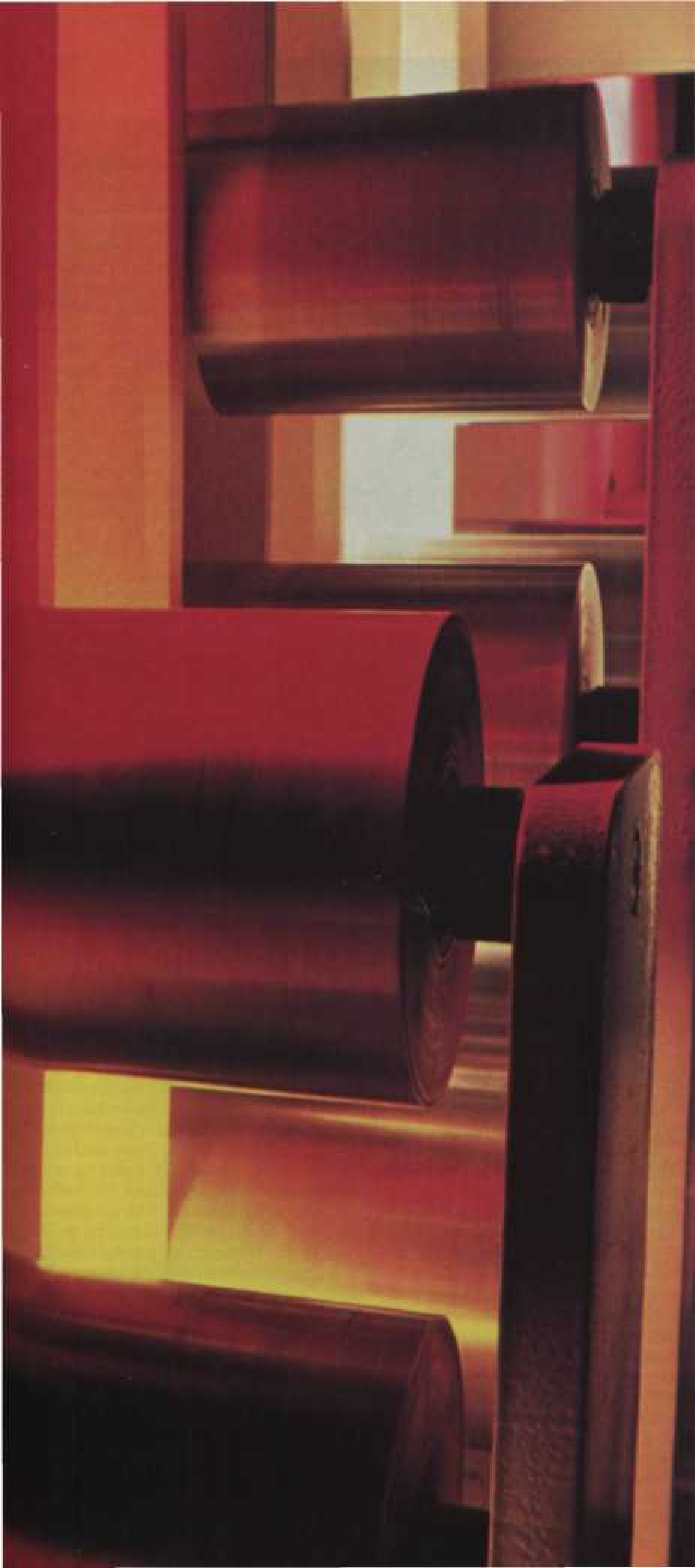

Ways and Means Committee Chairman Dan Rostenkowski wants to freeze legislated tax cuts but not bracket creep.

Brace Yourself For A Tax Fight

Hard fact for business: Even the White House seems to have softened its stand against increases.

By Barry Crickmer

SOME KIND of tax increase is inevitable, proclaims House Speaker Thomas P. O'Neill, Jr. (D-Mass.). Few knowledgeable observers of the Washington scene would disagree, however they might feel about whether one is appropriate.

The disturbing fact is that every major player in the game has gone on record recently in support of raising revenues by one means or another. And the business community remains the most attractive target politically.

President Reagan started the bidding by proposing a "standby tax" of 1 percent on corporate and individual taxable income and $5 per barrel on oil. The standby tax would be triggered in fiscal 1986 if the deficit that year were expected to be more than 2.5 percent of the gross national product. The Reagan proposal has very little support in Congress, even among Republicans, but it does signal to the lawmakers that the White House is no longer opposed to all tax increases under all circumstances.

Speaker O'Neill wants to cap the third installment of the personal income tax cut, due in July, and repeal indexing of the income tax for inflation, which is scheduled to start in 1985. House Budget Committee Chairman James R. Jones (D-Okla.) shares these objectives.

Rep. Dan Rostenkowski (D-Ill.), chairman of the tax-writing House Ways and Means Committee, proposes a "tax freeze" that would actually have the effect of repealing previously legislated tax reductions scheduled to begin after the end of this year, as well as forestalling some additional tax-cut proposals not yet passed. Among the subjects affected: indexing, estate and gift taxes, the windfall profits tax, foreign earned income, expensing, investment credit for used property, certain charitable deductions for nonitemizers, employe stock ownership plans, the 15 percent net interest exclusion, and tobacco and telephone excises. "If further revenue is needed," Rostenkowski says, "a deficit-reducing revenue increase—such as a surtax—could be implemented in 1984 or 1985."

On the Senate side, Finance Committee Chairman Robert Dole (R-Kans.) is striving once again "to identify major compliance problems." A similar search last year produced the Tax Equity and Fiscal Responsibility Act, a $100 billion tax increase billed 60 percent to business.

This year Dole is particularly interested in financial service industries, because "most of the major changes in business taxation [last year] affected capital-intensive industries."

Senate Budget Committee Chairman Pete V. Domenici (R-N.M.) favors an oil-import fee. He says he will propose one to take effect in fiscal 1984.

Paul A. Volcker, chairman of the Federal Reserve Board, told the Senate Budget Committee that his preference is for spending cuts, but that a tax increase would probably be needed. Such resignation is common on Capitol Hill.

As Richard L. Lesher, president of the U.S. Chamber of Commerce, sums it up:

"When other key indicators show that recovery is under way, what we get from Congress are calls for more taxes, more spending and more deficit-financed make-work programs. That prescription is the best way to kill the recovery."

Here is the outlook on five controversial tax issues of special interest to business:

Indexing. This may provoke the liveliest tax fight of this session, because the Democratic leadership is adamantly opposed to indexing and the Republican leadership is just as firmly committed to it. Indexing is intended to prevent inflation-caused bracket creep from pushing people into higher tax brackets when the purchasing power of their incomes has not increased.

Although indexing—scheduled to start in 1985—affects only the smallest businesses directly, it is a bellwether issue because of the clues it provides to the drift of fiscal and monetary policy. Repealing indexing nets more revenue only if inflation continues. Consequently, repeal would be "a signal that we're going back to inflation," says Council

of Economic Advisers Chairman Martin S. Feldstein, who believes that it would cause "incredible damage."

The motive for repeal is explained by Rep. Barber B. Conable, Jr. (R-N.Y.). Politicians love bracket creep, he says, because it provides more revenue without votes for tax increases, it provides the budgetary headroom to enact tax reform painlessly, and it permits cuts in tax rates without concurrent spending cuts. Conable recalls that when he came to Congress in 1965, federal revenues were a little above $100 billion a year. "I have participated in five major tax cuts," he says, "and I have been so successful in cutting taxes that we now have federal revenues down to $650 billion."

The fate of indexing probably depends on whether House Democrats can find a hostage sufficiently valuable to trade for the administration's cooperation in killing it. The defense budget is the most likely candidate.

Withholding. The second-liveliest tax battle is undoubtedly the one that has developed over the TEFRA provision requiring income tax withholding on dividends, interest and pensions. The banks and savings and loans started a prorepeal public relations campaign that has buried Congress in unprecedented amounts of mail from angry constitutents. Sen. Dole and Treasury Secretary Donald T. Regan have threatened to retaliate against the financial industry if repeal is successful. They have also called for a presidential veto if a repeal bill passes Congress. Based on the President's public support of withholding, they would probably get it. And the way things look, that may be the only chance of preserving withholding.

Health insurance cap. In an effort to control the alarming growth of health care costs, Reagan proposes to include in an employe's taxable pay any employer health-insurance payments on his behalf in excess of $175 a month for a family and $70 a month for an individual. Secretary Regan says about 18 percent of the workforce would be affected. Support for this idea in Congress is lukewarm at best, and it is opposed by business, labor and senior-citizen groups. With opposition that broadly based, it is not likely to go anywhere in its present form.

DISC. The domestic international sales corporation is a tax device established in 1972 to encourage American businesses—especially small businesses—to expand into international markets. Setting up a DISC, which is a paper transaction, permits indefinite deferral of the tax on profits earned from exporting.

Unfortunately, the DISC violates the General Agreement on Tariffs and Trade, which governs trade practices among the major industrialized nations of the non-Communist world.

The Treasury and several members of Congress are proposing ways to provide U.S. exporters an equivalent amount of incentive within the rules. One option under discussion is to require exporters to conduct a major part of their business from a base abroad to qualify for a tax break. However, that would be difficult for many small businesses. Another possibility is to permit small businesses to jointly support an offshore trading company. Yet another is to continue the DISC but levy an interest charge on the value of the tax deferral.

Some kind of DISC replacement will emerge, but it is too early now to be sure of the final form. A lot of negotiating lies ahead.

Capital gains holding period. Dole has introduced a bill to reduce the capital gains holding period (the time an asset must be owned to classify profit on its sale as a capital gain) from the present one year to six months, as was the case prior to 1976.

Similar legislation easily passed the Senate in the last session, but the two houses could never get together on it.

Secretary Regan says shortening the holding period would actually increase revenue. Senate approval seems assured. But Rep. Rostenkowski has observed that the change would probably be incompatible with his proposal for a tax freeze.

Initial reaction to the Rostenkowski plan has been lukewarm. If he decides not to push it, chances for shortening the capital gains holding period will improve considerably.

A strong recovery may cool the deficit fears that have been fueling calls for large-scale revenue raising. Nevertheless, it is a safe bet that some taxes will be hiked, even if the process is called "compliance improvement." □

How To Tear Down the Deficit Structure

The existence of an inherent "structural deficit" that necessitates substantial tax increases is called a myth by the U.S. Chamber of Commerce.

In recent congressional testimony, Richard W. Rahn, Chamber vice president and chief economist, rejected the "structural deficit" concept and presented a simple, five-part program for reducing the federal budget deficit without tax hikes:

- Freeze for one year all cost-of-living adjustments for federal retirement and disability programs, including Social Security. After the freeze, cost-of-living allowance payments for these programs would be 60 percent of the consumer price index increase, which is the average for private-sector wage COLAs.

Rahn explained that the freeze would help compensate for the fact that these programs have been "overindexed" in the past, because of flaws in the CPI. For example, Social Security benefits have risen 205 percent since 1970, while after-tax wages have gone up 110 percent.

- Limit the growth of Medicare and Medicaid outlays to half of the Reagan administration's current growth estimates. Stringent limits are needed now, Rahn says, to avoid an explosive growth of outlays after 1990 "as the aged population swells rapidly."
- Freeze federal civilian pay for one year, as suggested by the administration. In subsequent years, limit federal civilian payroll growth to 3 percent per year. An individual's pay could rise by a higher percentage if productivity gains and program reductions provided the necessary funds.
- Hold the increase in defense outlays to 7 percent a year, after inflation, as President Reagan suggested in 1981.
- Adopt the administration's budget recommendations for all other budget categories.

This plan, according to Chamber projections, would get the deficit below $100 billion for fiscal 1988 without tax increases. (The administration estimate of the deficit for that year is $117 billion, even after hiking taxes by $84 billion.)

"Even better," says Rahn, "Congress can achieve a surplus in 1988 if real gross national product grows by 5 percent annually, rather than at the 4 percent rate forecast by the administration."

Age Bias Charges: Increasing Problem

Older workers are filing more and more suits against employers.

By Tony Mauro

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PHOTO: MICHAEL HAYMAN—STOCK BOSTON

More than 28 million Americans between 40 and 70, working in a wide variety of occupations, are covered by legislation that prohibits discrimination because of age in hiring, firing or promotion.

IF YOUR ANNUAL REPORT boasts of a "young, dynamic" management team, here's some advice: Never make that claim again. As impressive as such a statement might be to your stockholders, it might also impress a jury if one of your employes filed an age discrimination lawsuit.

Many employers are learning that lesson the hard way. Complaints of age discrimination have been growing faster than complaints of sex and race discrimination, according to the Equal Employment Opportunity Commission, which handles such complaints on the federal level. More than 11,000 age discrimination complaints were filed with the EEOC in 1982—more than twice as many as there were in 1975 and about 10 times as many as in 1969.

Those complaints have been filed under the Age Discrimination in Employment Act, which was passed in 1967. Originally, it barred age discrimination in hiring, promotion or firing for virtually all workers between 40 and 65 in firms with 20 or more employes. The law was amended in 1978 to cover workers up to age 70—with one important exception. Executives and policymakers entitled to annual pensions of $27,000 or more can be mandatorily retired at age 65.

More than 28 million civilian workers are covered by the law.

Despite the sharp increase in complaints, experts say many corporations are doing little to respond.

"The attention that has been given to minorities and women through affirmative action programs is simply missing when it comes to middle-aged workers," says Daniel Knowles, vice president for personnel and administration at Grumman Aerospace in Bethpage, N.Y., and an expert on age issues. "Whatever money the companies are spending to defend themselves in court should be spent on preventive medicine. Most companies aren't doing anything to protect themselves."

TONY MAURO *is the Supreme Court reporter for Gannett News Service.*

That protection may be needed posthaste; signs are that age discrimination complaints will only continue to rise. The recession has had some worried executives looking for ways to reduce their payrolls and bring in "new blood," which sometimes means younger and less expensive "blood." In other firms, younger workers have already been trimmed; further cuts will have to come from older workers.

ADDITIONALLY, workers from the baby-boom generation are getting to the age when they will expect middle-management positions. Companies anxious to accommodate these workers are under pressure to find vacancies for them.

Just as important, older workers are becoming more savvy about their rights under the law and less bashful about exercising them.

For one thing, they are more knowledgeable in general—age discrimination complainants tend to be better educated than persons who complain of other types of job discrimination. Cathie Shattuck, vice chairman of the EEOC, surveyed age plaintiffs last year and found that 84 percent were male and 80 percent were in white-collar positions. Average pay for the male complainants was $30,024.

"It's the equal employment statute for white males," says John Tysse, director of labor law at the U.S. Chamber of Commerce.

These workers may have more time to get educated about the law, too. In better times, an older worker who felt he was forced out soon forgot his anger if he landed another job. But with fewer jobs available, those workers have time to let the anger fester. The House Select Committee on Aging reported last fall that older workers stay unemployed about four weeks longer, on average, than the rest of the jobless population. That is plenty of time to consider a lawsuit.

INEVITABLY, more and more lawyers are ready and able to help. Staggeringly large age discrimination verdicts against companies have helped fuel a new specialty in the law. "We are on the rise because the economy is on the decline," says V. Paul Donnelly of Detroit, who reports his law firm receives

How Employers Can Avoid Discrimination Trouble

MOST EMPLOYERS are unprepared to deal with the age discrimination issue, says Ernest J.E. Griffes of Concord, Calif., and it is easy to understand why.

Griffes, former director of compensation and benefits for Levi Strauss & Company and now a consultant to corporations on age issues, explains: "For a long time, corporations have been faced with regulatory problems relating to sex and race, and to the business itself—environmental regulations and the like. Now comes age. It tends not to be taken seriously. Often this is the one that bites you in the back of the neck."

To help prevent that from happening, Griffes offers what he calls "An Employer's Twelve Commandments on Age Discrimination."

1. Regard age discrimination as a serious issue. Sounds obvious, Griffes says, but he still finds that it "tends to be viewed less seriously" than minority and sex discrimination issues.

2. Educate managers about age discrimination laws. Many decisions that lead to lawsuits, Griffes explains, are made by middle managers, "often from ignorance of the laws and without the intention to commit age discrimination."

3. Provide a fair, objective and consistent performance review system that is age-neutral; then make it work. "Companies box themselves in if they don't have regular personnel evaluations and then come along and fire someone. That employe could make a very good case against the employer."

4. Prepare for age discrimination pressures as the baby-boom generation, at the peak of its career years, collides with senior workers who do not want to retire. Employers should develop such options for their workers as phased retirement, part-time work, uniformly applied early retirement incentive plans, retraining opportunities and preretirement planning programs.

5. Avoid conveying messages to older employes that they are not wanted or should retire. Says Griffes: "Only when there is substantiated and defensible performance-related evidence can such messages be given to an older worker, and then it should be given in a totally performance-based manner, free of implied age bias."

6. Recognize that raising the permissible mandatory retirement age reverses the tradition of who decides when an employe will retire. "Employers used to decide this by mandatory retirement," says Griffes. "Now employes make the decision. Companies should establish programs to help employes decide, but without coercion."

7. Establish a responsible managerial position to coordinate senior worker policies and programs. Griffes says policies on age discrimination tend to be developed without coordination among equal employment opportunity, compensation, benefit and labor relations departments. "The result is often confusing and counterproductive policies and programs that look silly in an age discrimination suit."

8. Assure that employment recruiters are trained in age discrimination issues and avoid conveying an age bias in dealing with job applicants.

9. Make sure that supplemental retirement incentive programs are equitably designed and administered, so "everyone is equally eligible," and are not coercive.

10. Conduct an audit from time to time to evaluate age issues and potential age discrimination problems developing. An audit would look at the ages of employes by function, department and actual job classification to determine, for example, whether clerical staff is substantially over- or underpopulated by older workers.

11. Review all policies and programs for references to age or policy implications respecting age that could be construed as discrimination against older workers.

12. Be aware that although the legally protected age group is 40 to 70, employes of any age can charge age discrimination if a personnel decision adversely affecting them is based on age factors alone.

an average of six inquiries a day from individuals or groups complaining of age discrimination. "In most cases, the principle at stake is pride. These people have been humiliated."

And their tales of humiliation find sympathetic ears in court. A quirk in the age discrimination law—one that the U.S. Chamber and others would like to see changed—allows for jury trials in age discrimination suits, unlike other types of job discrimination suits. Says Tysse: "Our experience has been that most jurors tend to be older on the average, so there's a high sympathy factor."

Adds Brenda Brooks of the National Association of Manufacturers: "The corporation is made out to be the bad guy. The employer has nothing to fight with but a young lawyer and documentation."

Some of the biggest verdicts and settlements:

• Consolidated Edison agreed last December to pay $3.7 million to 136 former management employes who were between 40 and 65 when they were discharged in 1977.

• A federal jury ordered United Airlines to pay double damages, totaling $18 million, to 112 former pilots and flight engineers who were forced to retire at age 60. The federal law allows commercial pilots to be retired at age 60, but the pilots in the case said they should have been placed in flight engineer jobs, where there is no age ceiling, when they turned 60.

The Complaint Boom

The number of complaints of age discrimination filed with the federal government has risen sharply in the last few years.

1975:	5,424
1976:	5,826
1977:	5,535
1978:	4,612
1979:	5,347
1980:	8,779
1981:	9,479
1982:	11,063

• In one of the most celebrated cases—featured on the television program "60 Minutes"—three employes of I. Magnin department store, a division of Federated Department Stores, were awarded $1.9 million, plus $400,000 in legal fees and costs, by a federal jury. The three were in their 50s when they were dismissed in 1978 as part of what they claimed was a move by the store to appeal to the youth market. The Supreme Court made the award final last October.

• The Home Insurance Company, of Manchester, N.H., was ordered last December to reimburse and offer to rehire 143 former employes who were forced into early retirement. Federal officials said back pay could total as much as $8 million.

Even early retirement programs, popular labor-trimming devices, have come under legal attack. A federal judge in Detroit last June threw out a Chrysler Corporation early retirement program, ruling that it improperly used age as the deciding factor. Workers under 55 were laid off with a chance of recall, whereas those over 55 were retired involuntarily with no such chance.

DANGERS FOR companies may intensify if Congress acts on proposals to lift altogether the age-70 ceiling on the law's protections. President Reagan, himself 72, has said he favors doing that, as does Rep. Claude Pepper (D-Fla.), who became a national spokesman for the elderly as chairman of the House Select Committee on Aging (a post he recently gave up to become chairman of the Rules Committee).

Pepper introduced a bill to lift the ceiling in the last Congress, and he plans to offer such legislation again this year. The Reagan administration has now retreated somewhat: It favors expanding the law to prevent discrimination against those above 70 in firing but not hiring. That is not much of a compromise. Statistics show the statute is rarely used in hiring cases, anyway. Ninety percent of the complaints challenge firing decisions.

So what is a company to do if it wants to adhere to the law and still be able to terminate workers who happen to be middle-aged or older?

Agreement is almost universal among experts that an employer needs documentation of problems with an older worker and of unsuccessful efforts to solve them if a firing is to survive a legal challenge.

"Companies are becoming much more careful in their evaluations in terms of building a case," says the Chamber's Tysse. "And if employes are coasting as they near retirement age, companies are finding other jobs for them rather than firing them."

Says lawyer Donnelly: "There has to be a fair yardstick. If a man is not doing a job, he should be fired. But if he is allowed not to do a job for 30 years and is not told about it, he shouldn't all of a sudden be fired."

Grumman's Knowles also advises corporate leaders to scrutinize their company's publications—from annual reports to want ads—for traces of age bias.

ADVERTISEMENTS that seek "young" workers or "recent college grads" are out. A Boston bank that sought a "junior auditor" drew an age bias complaint. Asking for "one or two years' experience" is okay, though. Asking job applicants their ages is legal—if that information is not sought for the purpose of deciding whether the applicants should be hired. Some firms have developed job application forms that allow ages to be torn off to guard against unconscious age bias in the hiring decision.

Companies should also take a preventive look at their personnel policies, large and small, Knowles says. "Even your recreational program should be looked at. Is it all softball and basketball and tennis? What about bridge and golf?"

All supervisors, experts agree, should be educated about the law and impressed with the notion that, as Rep. Pepper once put it, "ageism is as odious as racism or sexism."

Says Knowles: "Tell your people not to make irresponsible comments such as 'What we need here is some young blood.' That implies there's something wrong with old blood."

And everyone, Knowles urges, should be disabused of myths about older workers, "such as the myth that absenteeism increases for older workers. It's just not true. Young people are out just as much or more." □

A Sprawling Company's Organization Man

John Bryan's organizing talents, and a new strategy, have placed Consolidated Foods on solid ground.

By Grover Heiman

WHEN JOHN H. BRYAN, JR., became chief executive officer of Chicago-based Consolidated Foods Corporation in 1975, many people wondered how he would get along with Nathan Cummings, the company's largest shareholder.

Cummings had pulled Consolidated together through a series of mergers, beginning in 1939 (the company has borne its present name since 1954) and was chairman until he stepped down in 1968. He was still on the board in 1975—and the price of a share of Consolidated's common stock had fallen by half in the seven years since his retirement.

So Bryan was under a lot of pressure. Some observers predicted that Cummings would eat Bryan alive, as he had Bryan's two predecessors. Others thought that Bryan, a 38-year-old Mississippian, would be a dutiful yes man, taking orders from Cummings.

All such predictions turned out to be wrong.

Cummings, at 85, is still an active member of the board, but Bryan has taken firm control of Consolidated, bringing a knack for organization to a company that once was highly—some would say excessively—decentralized.

"Nate Cummings and I have never had a cross word in eight years," Bryan says. "I think he is a marvelous fellow, and we get along beautifully."

Despite his Southern geniality, Bryan leaves no doubt that he is the man in charge: "I think I have a high degree of determination to be very good at whatever I am associated with. I am quite sure that I have no trouble making decisions and no trouble at all taking tough actions if I really need to."

Since Bryan took over, Consolidated's stock has regained lost ground, climbing back to around the 1968 price. Sales, which were $2.5 billion in 1975, rose above $6 billion in 1982. Consolidated achieved a 17.3 percent return on stockholders' equity in 1982—the seventh year in a row that return on equity has improved.

Consolidated, with 92,500 employes in the United States and abroad, now has seven core groups that produce and market well-known brands: beverages (Shasta), apparel (L'eggs pantyhose, Bali bras), specialty meats (Hillshire Farms), frozen foods (Sara Lee, Popsi-

John H. Bryan of Consolidated Foods presides over a host of familiar brand-name products.

cle), consumer products (Union sugar), food service (Monarch) and consumer direct sales (Electrolux, Fuller Brush). In all, Consolidated embraces 35 companies.

At one point, before John Bryan took charge, Consolidated had 125 companies under its umbrella. One of Nate Cummings' last acts as chairman was to acquire Bryan Foods, Inc., of West Point, Miss., whose president was John Bryan. As a result of that acquisition, the Bryan family wound up with more than 500,000 shares of Consolidated common, about half as much as Cummings owned.

The paths of John Bryan and Nate Cummings thus began to converge on Oct. 5, 1936, the day that Bryan Brothers Food Company, as it was then known, opened for business as a slaughterhouse and processing plant in a new brick building just south of West Point. (It is a date that John Bryan has no trouble remembering, since it is his birthday as well as the company's.)

PHOTO: CONSOLIDATED FOODS

One of the shining stars in Consolidated Foods' frozen foods core group is Sara Lee bakery goods. Bryan, shown here at the Deerfield, Ill., plant, spends nearly half his time on the road, visiting plants and other facilities.

AT FIRST the slaughterhouse supplied a meat market that John's father and uncle owned in West Point, a town of 6,000. But the new business, started with an investment of only $3,000, prospered, and after five years the brothers closed the meat market to give all their attention to the processing plant.

By the time he was 10, John was working at the plant during the summer. He was paid 15 cents an hour to assemble cardboard cartons. "Pretty soon, though," he says, "I was getting 35 cents. Can you imagine such a wage scale today?" (In 1982, Bryan received $726,600 in salary, bonus and director fees from Consolidated.)

The summer he was 15, John was promoted to an office job—he ran the switchboard, handed out paychecks, did some filing and sold meat to the employes. The next summer he accompanied a livestock buyer to auctions in the West Point area. He quickly learned the routine and how to judge the weight and grade of cattle and hogs, and he began bidding. "That was really fun," he recalls.

But all during his teens, while he was being exposed to the business, he never formed any career plans.

In the fall of 1954, John Bryan started college at Southwestern of Memphis. There he met Neville Fryerson, from Jonesboro, Ark. They married in the summer of 1958, the year they both graduated.

Bryan, who had earned his undergraduate degree in business administration, went on to the graduate school of business administration at the University of Virginia. After his first year of graduate school, he returned to West Point for the summer—and ran into some parental impatience.

"My father thought it was rather preposterous," Bryan recalls, "that I was married and living off him and not working. He really didn't know why I thought I needed more schooling. I had a job at Bryan Brothers. He was rather insistent."

Bryan wanted a master's degree, so he proposed a compromise—he would work half a day and commute to Mississippi State University, 15 miles away, and finish his graduate work. His father agreed.

By the time Bryan finished at State, early in 1960, his father was spending more and more time away from the office as he pursued other business interests, mainly real estate. Within a few years John Bryan, still in his early 20s, was running a business that was grossing around $20 million a year and was the town's largest employer.

He brought in a consultant to determine overhead allocations and to establish a system that would give him a quick and accurate reading of the profitability of the company's departments and processed meat products. He also talked his father into buying the firm's first data processing equipment.

Bryan Foods grew steadily, and by 1968 its annual sales had reached $55 million. But then John's uncle died. Bryan offered to buy his uncle's half interest, but the offer was rejected by the uncle's three children.

He did not want to sell the company, but Bryan was well aware of the problems that often afflict family-owned firms once the original owners pass from the scene. He and his cousins agreed that Bryan Foods should be sold to an outsider. They chose Consolidated, in part because it had a tradition of retaining management.

John Bryan is still satisfied with the decision to sell. "I thought that the interests of the family would be served best by letting everyone have their own nest egg and not be tied all together in a small town," he says. "And was I ever right, because today we are all a marvelously close family. A few shares have been sold, but nearly all of the 508,000 shares we received in the sale are in family hands."

Nate Cummings kept John Bryan as president of Bryan Foods. Content to become a "hired hand" of Consolidated and to remain in northeastern Mississippi, Bryan built a new home on 10 acres near West Point.

WEST POINT had not always returned Bryan's affection. Earlier in the 1960s, he was the target of a lot of anger and resentment because of his prominent role in desegregation.

Bryan, who had been chairman of both the school board and the local chamber of commerce, was incensed when West Point closed its public schools to avoid desegregation, and he joined with blacks in a suit against the

town. When the schools were reopened, with a 70 percent black enrollment, John Bryan's children attended; his relatives' and friends' children mostly went to newly opened private schools.

Bryan Foods was one of the first businesses in West Point to do away with such vestiges of segregation as separate drinking fountains, rest rooms and cafeterias. And John Bryan was the first employer in the area to put blacks in clerical and supervisory positions.

"When you employ a large number of people in a town," he says, "you have got a much more comfortable base from which to take maverick and unpopular positions. I had no problem being an island unto myself, and I was one for a long time."

But all of that was in the past by 1973, when Consolidated's chairman, William A. Buzick, Jr., made a visit to Bryan Foods. He mentioned to John Bryan that he was looking for a vice president for financial affairs, and he asked whether Bryan had ever given thought to moving to Chicago. Bryan had not.

A month later, Buzick offered him the job, plus a seat on the board. Bryan thought about the distress that moving to Chicago would cause his wife and four children, and he turned down the job.

Early the next year Buzick called again. This time he asked Bryan to come to Chicago as executive vice president for operations. He would physically occupy the president's office (the job was vacant at the time). Bryan flew to Chicago for more discussions.

CONSOLIDATED FOODS was essentially a holding company; the lean headquarters staff numbered around 50, including three part-time auditors. Bryan found this management structure disturbing—and challenging—because the company could exercise so little control over its dozens of subsidiaries. He realized that if he did a good job, he would not only occupy the president's office, he would get the position.

The Bryans moved to a house in Kenilworth, north of Chicago—they still live in it—and John started riding the commuter train into the city. Then came a whirlwind tour of the firms that Consolidated owned. Consolidated executives saw that this affable, Southern-courteous new vice president was a quick study who took notes and slipped them into his pocket.

This is a lifelong habit of Bryan's; every night he assembles those notes and plans the next day.

In October, 1974, Bryan was named president and chief operating officer. Then, on Lincoln's birthday in 1975, Bill Buzick resigned as chairman and CEO. The chairman's spot was left unfilled, but John Bryan was named CEO. He chaired subsequent board meetings and he became chairman the following year.

PHOTO: CHRISTOPHER KEAN

"I like to plan carefully for the next day and plan the course of business carefully. But I have never done any career planning in my life. I think it can get you into trouble."

Consolidated's 17-member board was heavily loaded with insiders—14 members were either heads of acquired companies or corporate officers. One of the top items on Bryan's agenda was to reorganize the board for better balance. He told the board that it wasn't doing its job and that new blood was needed. Cummings supported Bryan, and soon the board had new outside members (the ratio is now 10 outsiders to 7 insiders).

Then Bryan began reorganizing the headquarters and devising a strategy to pull Consolidated's holdings into seven core groups.

In the past, Consolidated's sales growth had come essentially from acquisitions. In the future, Bryan decided, growth would come primarily from within. The company would concentrate on consumer goods and services. Future acquisitions—Bryan calls them "integrating acquisitions"—would be firms that fit well with an existing Consolidated firm or that would immediately provide a needed product or manufacturing or marketing strength.

Bryan divested 49 companies that didn't fit the new strategy—companies that made toy trains, curtain rods, men's shirts, women's clothing and furniture.

In the meantime, he increased the headquarters staff to nearly 200. He now has the control he believes is essential—even though, he says, "we are essentially decentralized and always will be."

By 1977, Bryan was ready to start looking at possible acquisitions that would fit the new corporate strategy. In the next two years, Consolidated spent $434 million for acquisitions. It spent $34 million for Chef Pierre, a piemaker, to complement Sara Lee products; $150 million for a 65 percent interest in Douwe Egberts, a Dutch coffee company; and $250 million for Hanes Corporation, which makes L'eggs pantyhose, bras, and men's and boys' underwear.

Hanes, then essentially a family-run firm, was not eager for the marriage. "The takeover," Bryan says, "was moderately friendly." Consolidated's style calls for friendly—not just "moderately friendly"—mergers, but Hanes, which had blossomed as a marketing company by selling pantyhose in supermarkets and drugstores, seemed to fit perfectly in Consolidated's consumer-oriented strategy.

In 1978 Consolidated acquired 4.9 percent of Hanes' common, just shy of the 5 percent that requires a report to the Securities and Exchange Commission. Consolidated then approached Hanes about a merger, but Hanes rejected the idea.

A FEW WEEKS later Consolidated started buying rapidly and quietly. When it had 21 percent, Consolidated reported to the SEC and proposed a merger; this time Hanes' stockholders accepted.

In 1982 the Hanes Group accounted for nearly 17 percent of Consolidated's sales, exceeded only by beverage sales (23 percent).

With Consolidated in good shape, John Bryan is thinking about his own future. He has set no firm date, but he indicates that 1991—when he will be only 55—is probably the latest that he will be on "this assignment." He has no long-range plans. "I like to plan carefully for the next day and plan the course of business carefully," he says, "but I have never done any career planning in my life. I think it can get you into trouble." □

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Securities and Exchange Commission Chairman John R. Shad (right) declares that federal policies have been reducing the availability of capital.

Tax Relief For Small Business?

A growing chorus says the time has come to ease the entrepreneur's burden.

By James Freer

SINCE THE END of World War II, "many of the nation's regulatory, fiscal and monetary policies have actually been antithetical to capital formation."

John R. Shad, chairman of the Securities and Exchange Commission, said that as he opened the SEC's first annual Government-Business Forum on Small Business Capital Formation.

Participants included owners and operators of small businesses, venture capitalists and other financial experts, government officials and other persons concerned about problems of capital availability for small businesses. The forum is required under provisions of the Small Business Investment Incentive Act of 1980, which also stipulates that the forum's recommendations be sent to Congress.

The first set of recommendations has been forwarded to Capitol Hill, where it is under committee consideration along with a broad range of other small business tax relief measures from key sources, including the congressional small business committees themselves.

One major plan has come from the U.S. Chamber of Commerce, whose Small Business Council has drafted an extensive program of tax relief for small entrepreneurs.

Another program was developed by the chairmen of the House and Senate subcommittees on small business tax issues, Rep. Henry J. Nowak (D-N.Y.) and Sen. Alfonse M. D'Amato (R-N.Y.).

The high priority Congress is giving these measures is an indication of small business' enhanced stature on Capitol Hill.

Although the pending measures differ in details, all give priority to moderating the corporate tax rate structure and providing relief for small business on capital gains taxes.

The measure being pressed by the small business subcommittees calls for changes in those and other areas. Here is a summary of that bill, the Small Business Tax Reduction Act of 1983:

Corporate tax rates. The maximum rate would be applied to income over $500,000, instead of the present ceiling of $100,000. Brackets ranging from $100,000 to $500,000 would be established.

Small business capital gains. An investor in a small business could exclude all gain on such an investment from taxation if (1) the investment had been held for five or more years before the gain was realized, and (2) the gain was rolled over into another small business investment. Current law excludes 60 percent of a capital gain from taxation if the investment has been held for a year or more; however, the remaining 40 percent of gain is subject to tax even if it is rolled over.

Corporate capital gains. Corporations that invest in small firms would receive the same treatment as individuals who make such investments. Corporations are currently taxed at a higher rate.

Cash inventory accounting. This change would permit small businesses to switch from accrual to cash accounting without using the tax indexes for LIFO inventories. The effect would be to permit a small business to charge more expensive raw materials against the value of its currently sold products, thereby reducing its tax liability. This is a controversial proposal that is opposed by organizations, including the U.S. Chamber, that favor the general use of accrual accounting on the ground that it is a more accurate reflection of costs and revenues.

Small business equity loans. A lender would be allowed to make a loan to a small business at an interest rate lower than the prevailing rate; in return, the lender could receive a share of the small business' profits.

Like the bill, the U.S. Chamber's small business tax program calls for lower corporate tax rates on the first $500,000 of taxable income and a lower effective tax rate on capital gains.

Among the other elements of the Chamber's plan:

- The investment tax credit for used equipment would be increased to at least $250,000.
- The accumulated earnings tax would not be applied until at least $500,000 in earnings had been accumulated, as opposed to the $250,000 permitted now.
- Subchapter S provisions in the Internal Revenue Code would be revised so that more small firms could use them. A Subchapter S corporation is a hybrid that resembles both a corporation and a partnership; the shareholders assume limited liability, as in a partnership.
- The owners of a closely held business could defer tax on the sale of equity in the business if they reinvested the proceeds in another small business.

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• Tax accounting for inventories would be simplified, by allowing more small businesses to use a single price index for all of a business' goods; separate "pools" and price indexes for each category of goods would no longer be required.

• Specific statutory tests would govern whether an individual was an independent contractor—and thus not subject to withholding for income tax—or an employe.

• Relatively simple rules would distinguish between debt and equity in a firm; the distinction is important because the payment of interest on a debt is tax-deductible, whereas the payment of dividends to owners of equity is not. The Internal Revenue Service has been attempting to issue rules establishing the distinction, but its proposed rules have been widely criticized for being too complicated.

• Tax abatements like domestic international sales corporations, which promote exports, would be preserved and enhanced. The DISCs have come under attack from the United States' trading partners, who have complained that such organizations are forbidden under the General Agreement on Tariffs and Trade; the Reagan administration is expected to propose a replacement for the DISCs, and the Chamber wants small business to be able to use the replacement.

• The targeted jobs tax credit would be expanded to a general jobs tax credit, which the Chamber sees as preferable to greater spending on public employment.

Nowak sponsored a jobs tax credit bill in 1982—it did not reach the House floor—and he plans to introduce a similar bill this year. Nowak's Buffalo-area district has suffered from plant closings and other job losses in recent years, and he believes that a jobs tax credit would enable small business to hire workers who have been laid off by heavy industry and are unlikely to regain their old jobs in the near future.

D'Amato and Nowak hope that hearings on the Small Business Tax Reduction Act will be held this spring. Their subcommittees drafted the bill after studying recommendations made last year by the SEC's Government-Business Forum.

By majority votes, the forum delegates approved 37 recommendations on small business tax and capital formation laws. The forum advocated action on the corporate rate structure, capital gains and jobs tax credit that parallel provisions of the D'Amato-Nowak bill and the Chamber's small business tax program.

AMONG THE forum recommendations that were not included in the D'Amato-Nowak bill were proposals to liberalize small business access to pension funds and industrial development bonds. The bill was limited to five changes on the assumption that a tight bill would have a better chance of passage.

In forwarding its recommendations to Congress, the SEC emphasized that it did not seek to influence the substance of the proposals and that it had not taken positions on any of them.

PHOTO: DIEGO GOLDBERG—SYGMA

Sen. Alfonse D'Amato (R-N.Y.) calls for more "front-line troops" in a fight for tax reform.

The second SEC Forum on Small Business Capital Formation is scheduled for this September in Washington.

Small business people interested in attending the second forum should write to Paul A. Belvin, Chief, Office of Small Business Policy, Securities and Exchange Commission, Washington, D.C. 20549.

SEC Commissioner John R. Evans, the chairman of last year's forum, hopes to attract more small business people this year. Only about 30 percent of the 176 participants at the first forum were small business people.

Others who attended the forum or have studied its report share Evans' view. As Sen. D'Amato says, "We need more front-line troops."

The report listing the recommendations of the first forum contained findings of a survey by the SEC and the Financial Reporting Institute of the University of Southern California to determine the views of small business on "the most useful steps that could be undertaken to encourage capital formation."

Of the businesses responding, 47 percent had fewer than 50 employes, and 53 percent had more than 50. Twenty percent had fewer than 20, whereas 33 percent had more than 100. Asked to rank the most important tax policy changes needed to spur capital formation, 37 percent ranked as No. 1 relief from double taxation of corporate income; 35 percent listed reduction in corporate income taxes.

Reduction of interest rates was ranked No. 1 by 93 percent of the respondents when they were asked what should be done to help small business obtain credit from banks. On the question of access to financial institutions generally, 39 percent gave No. 1 ranking to proposed incentives to institutional investors to invest in small businesses.

Regulation was viewed as the greatest problem in raising funds in capital markets, the returns in that category showed. Forty-five percent ranked as the top priority "the reduction of complexities arising from differing requirements of federal and state governments," whereas 35 percent said the No. 1 goal should be reduction of the cost of complying with securities regulations.

OF THE COMPANIES responding to the survey, 72 percent are privately held.

Largest single industry category represented was manufacturing, with 33 percent of the total. Retail and wholesale trade represented 21 percent, and 14 percent of respondents represented various service industries.

The survey spotlighted variations in the perspectives of privately and publicly held companies, with the former placing considerably more emphasis on growth and development of local banks. Publicly held companies "are more inclined to seek avenues to expand their ownership base than are privately held companies," the survey report said. □

Would a Youth Differential

A summertime subminimum wage might mean jobs for teen-agers, but perhaps not very many.

By John de Ferrari

PHOTO: KEVIN HORAN

DOUBLE-DIGIT unemployment rates have given new life to a controversial idea: allowing employers to pay younger workers less than the federal minimum wage during the school vacation period.

President Reagan supports the idea as a way to "help young people get a start in the job market." Leaders of organized labor see it as a way to create "a pool of cheap, part-time child labor" that would displace older workers.

Those are the opposing arguments that will be pressed on Congress when it begins consideration of a youth differential.

The President's proposed Employment Act of 1983 calls for a youth wage of $2.50 an hour, approximately 75 percent of the current minimum of $3.35. The rate would be in effect only from May to September of each year, and only newly hired youths under 22 would be eligible. No current employe's wages could be lowered to the differential rate.

The youth unemployment rate is now over twice as high as the national rate, and joblessness among minority youths is more than double that—as high as 70 percent in some areas. The Reagan administration sees the youth differential as a quick, practical, cost-free method of dealing with at least part of the problem.

Supporters of the idea challenge predictions that other workers would be displaced. The charge is "more rhetoric than reason," according to John Cogan, assistant secretary for economic policy at the Labor Department. The bill includes a prohibition against substituting youths for adults and, because of the summertime-only provision, makes it unprofitable for businesses to fire experienced workers and train youths to take their places. Rather, the aim and effect of the new law, supporters say, would be for businesses to create jobs that they couldn't afford at the minimum wage.

The Labor Department believes that a youth differential could create anywhere from 150,000 to 650,000 jobs this summer. These would most likely be "marginal" jobs that have not been filled because of the high cost of labor. A small store owner, for example, who would like to have a helper on his delivery truck but could not otherwise afford it might hire a youth this summer. Stores and other businesses might upgrade maintenance. Movie theaters might have ushers again.

AS THESE hypothetical examples suggest, it is small business that is most likely to take advantage of the youth differential, and such employers are perhaps its biggest supporters.

Eamonn McGeady, president of Martin G. Imbach, Inc., a small marine and heavy construction firm in Baltimore, is a strong supporter of the youth differential. He offers a specific example of how it would apply to his own business:

"When we're doing heavy construction on old docks, we dismantle a lot of wood pilings. We used to cut up the old timber for firewood, but we can't afford to do it anymore. If we could get young people to split wood for $2.75 an hour, we might do it again."

McGeady, who is also chairman of a small business legislative action committee of the U.S. Chamber of Commerce, expresses doubt that the youth differential would immediately create hundreds of thousands of new jobs but insists that the special wage "has its place."

Reliable facts and figures about what would happen if a youth differential were enacted are hard to come by, thus fueling the debate over the soundness of the idea. Most estimates about its impact are based on studies of the standard minimum wage.

"We know that for every 10 percent increase in the minimum wage there is a loss of 50,000 jobs," says Mark A. de Bernardo, a labor law attorney for the U.S. Chamber. "In addition to that, 90,000 jobs that would have been created are kept out of existence."

De Bernardo's statistics are based on findings of a study done for the Minimum Wage Study Commission, released in July, 1981. Researchers surveyed the impact of the last four minimum wage increases, from January, 1977, to January, 1981, and concluded that 644,000 jobs had been lost as a result of the increases.

Logically, a lowering of the minimum wage for youths could win back some of those lost jobs and put idle young people to work.

As de Bernardo sums it up, "There is no guarantee that a youth differential would work, but it should be tried. In conjunction with other jobs stimulus initiatives and a general healing of the economy, it could solve the youth unemployment problem."

Although business favors the idea, support from some larger companies has been lukewarm at best. "Large retailers have not jumped all over the idea of a youth differential wage," says Donald White, vice president of the American Retail Federation. "We would support the idea that there should be no statutory level of wages, but right now we just don't have the

Make Much Difference?

PHOTO: PAUL CONKLIN

PHOTO: KEVIN HORAN

Joblessness among youths, especially minorities, is at crisis levels. The White House believes a special wage would spur businesses to hire more young workers—stock boys in stores, for example.

positions available for youths at the differential wage."

A recent General Accounting Office report adds to the prevailing tone of ambivalence. Noting that the Minimum Wage Study Commission recommended against establishing a youth differential wage, the report says, "Available economic evidence and analysis neither support nor refute the recommendation against a youth subminimum wage." Still, the GAO found a "high probability" that the minimum wage is a substantial obstacle to employment of teen-agers.

The idea of establishing a lower minimum wage for younger workers is not a new one. Various youth differential plans have been studied since the Nixon administration. One such bill, in 1977, was narrowly defeated—by five votes in the Senate and just one in the House.

Controversy has centered not only on whether older minimum-wage workers would be displaced by subminimum-wage youths but also on what the nature of youth employment in general should be like.

Putting youths to work not only provides them with skills and training but also teaches them the fundamentals of job discipline. As Eamonn McGeady says, "For many young people this would be their first exposure to the responsibility of showing up on time for work. That's an important part of their education."

But some feel that the minimum wage is inherently discriminatory against youths. They contend that employers are often unwilling to hire teen-agers and train them because they do not believe that teen-agers are worth the minimum wage. In an important 1977 study, economist Walter E. Williams of George Mason University argued that the minimum wage law discriminates against those Americans whose productivity is too low to justify paying them the minimum. Williams believes that a youth differential would take into account this lesser productivity, thus ending the discrimination. After being hired and trained at the low rate, he argues, young people would become productive enough to warrant their being paid the full minimum wage.

OPPONENTS INSIST that subminimum wage work, if it exists, is not worth doing. "Do we want our teen-agers doing subminimum work?" asks Sol Chaiken, president of the International Ladies' Garment Workers Union. He advocates establishing incentives for business to hire youths for "meaningful" employment so that their skills and productivity can be increased, rather than paying lower wages for the work they can do now. Conceding that aggressive measures like worker training programs can be costly, Chaiken says that this alternative represents "an investment in the future that will ultimately cost less."

In studying youth differential proposals, economists have looked to the student differential wage rate that is already in existence. The Labor Department allows employers to pay full-time secondary and college students 85 percent of the minimum wage. The program is restricted to retail and service businesses, farms and colleges, which must pledge not to displace other workers. Students must work no more than 20 hours per week, and most employers can hire no more than six.

Some 500,000 students work under the program, which was created by Congress in 1961. Students appear eager to work at a differential rate, though analysts caution that this does not mean others would be as interested. Also, jobs for students are easier to create than jobs for nonstudents, who are less attractive as job candidates.

Some observers speculate that organized labor, which advocates raising the minimum wage to $4.50 an hour, might concede the youth differential proposal if the minimum wage were raised in the bargain.

Business would find little to recommend that exchange. "A trade-off on the minimum wage would not be a trade-off at all," says de Bernardo of the U.S. Chamber. □

Limits on Storm and Theft Losses

By John Hanly Adams

As if record snows in the East, floods in the South and mud slides and tidal waves in the West were not enough bad news, the Tax Equity and Fiscal Responsibility Act of 1982 will probably keep many victims of such disasters from reducing their losses through federal tax deductions.

But note this: New rules included in TEFRA do not apply to losses before Jan. 1, 1983. And if your loss occurs in 1983 or later, you still get some tax-reduction help if the loss is big enough.

For losses in 1982, you can deduct on the tax return due April 15 (or August 15 if you apply for an extension) all of any loss above $100 that is not compensated by insurance.

A deductible casualty loss includes damage from:

- A flood or other natural disaster.
- A car accident.
- A fire.
- Theft, including embezzlement or other unlawful act by another.
- Vandalism.
- Any "sudden, unexpected or unusual" event. Smog damage to your house paint or salt damage to your car paint, if sudden, might qualify; damage to your basement through soil settling caused by heavy rains might not.

For losses after Jan. 1, 1983, you can deduct only the uncompensated loss above 10 percent of your adjusted gross income for the tax year. A person with a $50,000 adjusted gross income and a $5,000 uncompensated loss can deduct $4,900 if that loss occurred in 1982. But if that loss occurred after last January 1, the deduction would be zero.

AMT's Bigger Bite

More bad news for upper-income taxpayers: the expanded AMT—alternative minimum tax.

The wider bite, effective January 1, of this alphabetical tax termite is another product of the 1982 tax act.

AMT lays an extra tax on income derived from tax shelters, incentive stock options, certain depreciation allowances and other "preference items." It has been paired with the "add-on minimum tax" (hence the name "alternative minimum tax"), which is still in effect for 1982-and-earlier income. Starting in 1983, the "add-on" tax is repealed and replaced by the new AMT.

The AMT rate in 1983 is 20 percent (versus 15 percent in 1982) on the amount of alternative minimum taxable income that exceeds the exemption amount. AMT applies to more items than the add-on tax did, including the tax exclusion for interest paid on all-savers certificates and the first $100 of dividends received.

You won't get bitten by AMT until your adjusted gross income plus preference items exceeds $30,000 if you are single; $40,000 if you are married filing a joint return.

Three IRA Developments

- Congress has just changed the law to allow a working spouse who has passed 70½ to continue contributions to a joint Individual Retirement Account set up with a younger "nonworking" spouse, until that spouse reaches 70½. In the past, no one past 70½ could contribute to an IRA. The rule begins with 1982. The limit on a spousal IRA is $2,250 a year.
- Beginning in 1983, you can roll over part of an existing IRA into a new IRA. Up to now, any rollover had to include all the money in the IRA. Any distribution (money take-out) from an IRA is taxable as ordinary income, and a penalty applies on distributions before age 59½.
- Even though your pension or deferred-pay payout is taxed as personal service income when you get it, you cannot use that income to fund an IRA.

Tax Withholding Rules

Reminder: Pensioners can prevent the withholding of federal income tax from their pensions by the paying institution. Moreover, they can change their minds—to permit withholding or to stop it—at any time. Withholding on interest and dividends is scheduled to begin July 1, but Congress is under heavy pressure to repeal that rule. Responding to the uproar, Treasury delayed withholding on Treasury bills and other discount investments for six months. Payers can choose not to withhold tax on interest payments up to $150; some dividends are exempt.

Consultants' Taxes

IRS is still in hot pursuit of consultants who seek to avoid self-employment tax because their services are restricted in some way.

Latest example: An engineer retired, then contracted with his ex-employer to be a consultant prohibited from performing work for anyone else. He argued that this proved he was not holding himself out, in the language of the tax code, "to others, as engaged in the selling of goods and services" and thus was not subject to self-employment tax. In similar cases the U.S. Tax Court had agreed with that interpretation, overruling IRS.

Recently, however, IRS issued Revenue Ruling 82-210, reflecting a higher court's decision that an exclusive contract did not affect a consultant's "trade or business" status. In a related area, IRS still wants self-employment tax paid on directors' fees received by retiree-consultants, despite several contrary Tax Court decisions.

Kid Stuff

Who is responsible for making and signing the federal tax return of a minor? In Revenue Ruling 82-206, IRS says the child is; but if the child is too young or otherwise incapable, the parent or guardian must make and file the return, signing the child's name followed by the words "By (signature), parent (or guardian) for minor child."

Who gets the deduction for a child as a dependent, in divorce or separation cases? The parent who can prove he or she provided more than half the child's support in a given year. Tax Court Memo 1983-40 denied a father's claim to the deduction because he could not prove his case with records the court found acceptable. □

Note: For Your Tax File *is an information service for readers. See tax and legal advisers for guidance on all specific cases.*

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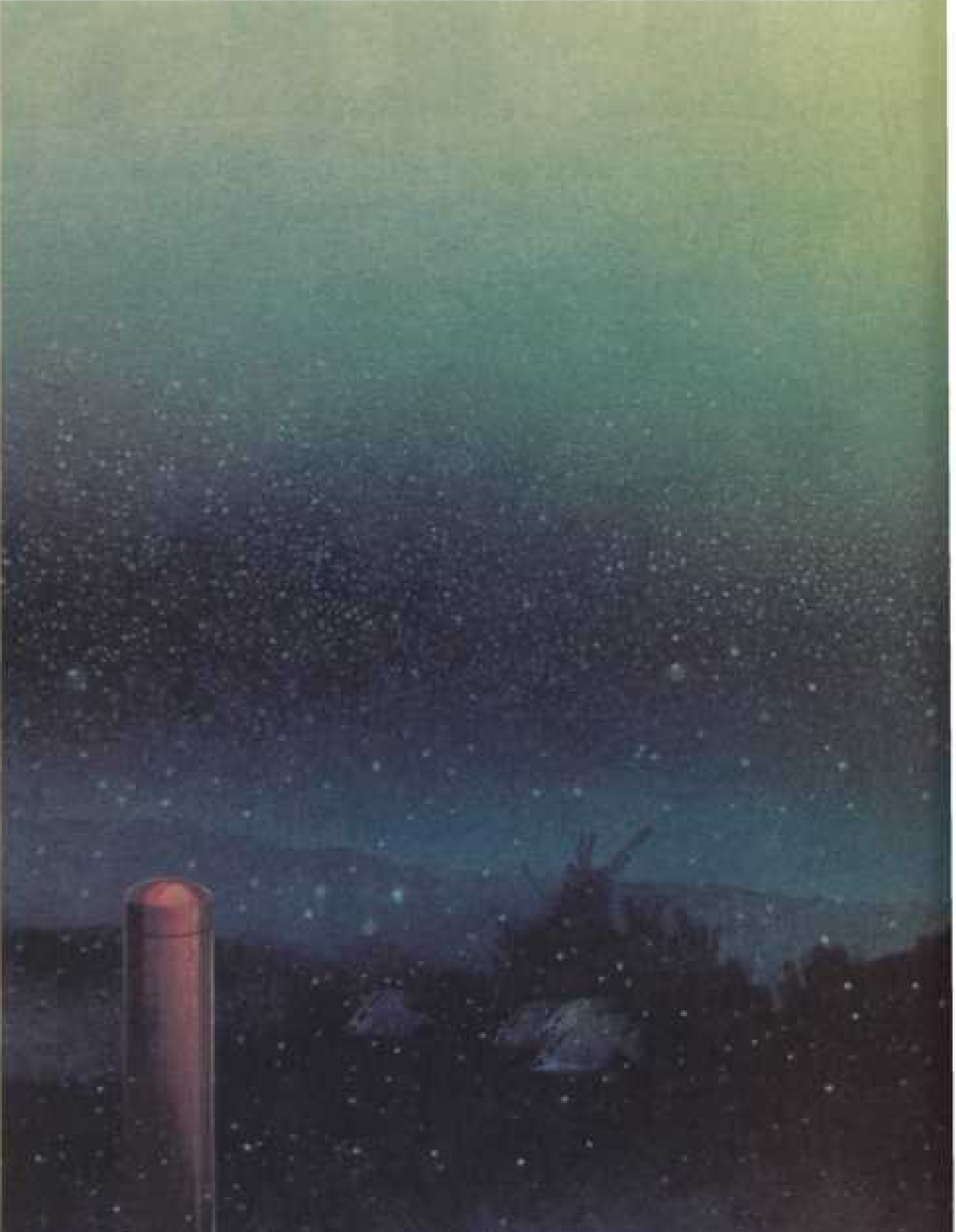

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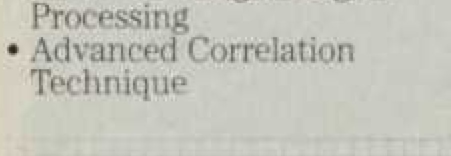

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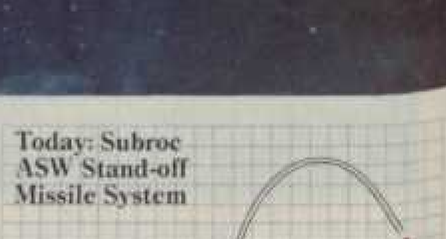

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The Terrible Tangle In Bankruptcy Law

Some debtors may be getting off too easily, and there's another problem: The federal bankruptcy courts are all but shut down.

By Mary-Margaret Wantuck

THE CASE LOAD in U.S. bankruptcy courts continues to grow rapidly, but the courts themselves remain nearly paralyzed because of a continuing congressional impasse over how to reactivate them.

"Nobody really knows whether a court order being decreed now will stand up," says Joe Lee, a federal bankruptcy judge based in Lexington, Ky.

Congress has been trying to take corrective action, but key proposals in the Senate and House conflict sharply, and there is no indication at this point when there will be a final resolution.

The tangled situation now facing the debtors' courts is the result of the unanticipated union of two forces, both arising from a 1978 law intended to streamline and simplify court handling of bankruptcy claims.

A key provision created bankruptcy courts presided over by judges with broad authority to deal not only with bankruptcy cases but with related legal issues, like contractual obligations, antitrust issues and job discrimination claims. The law specified presidential appointments to 14-year terms for these judges, at salaries subject to adjustment by Congress.

Last June, however, the Supreme Court held that the 1978 law's provisions affecting judges conflicted with Article III of the Constitution. That article specifies that federal judges be appointed for life at salaries not subject to reduction during their tenure.

About the time that decision came down, financial institutions, loan agencies, retailers and other lenders were reviving a dormant campaign to reform the 1978 law, which, they said, made it too easy for borrowers to win cancellation of debts they were able to pay.

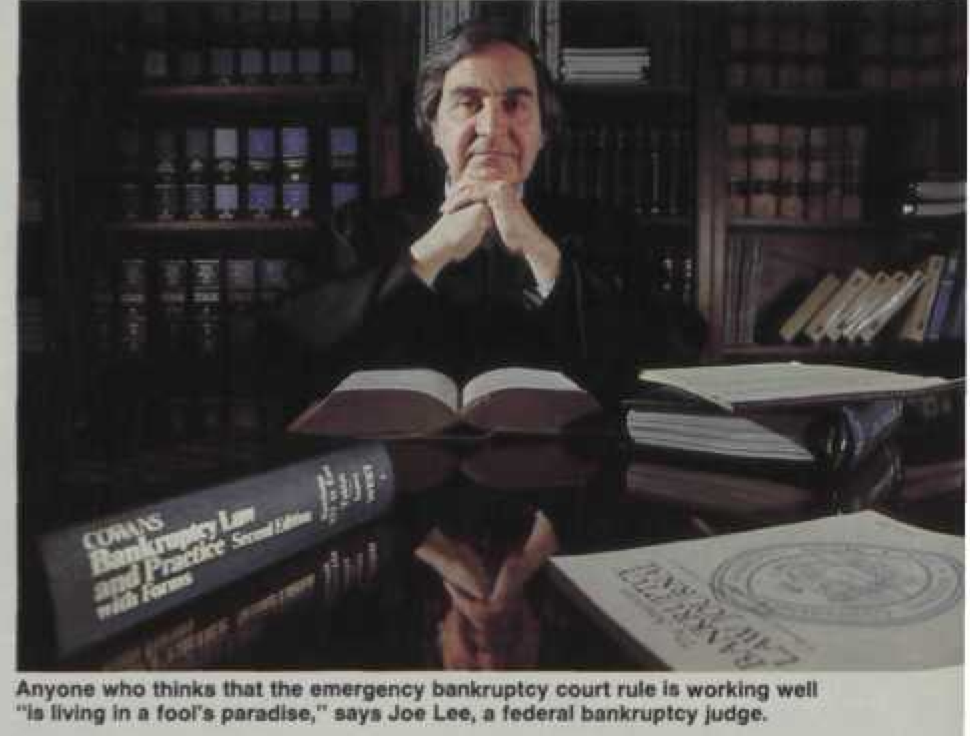
The lenders want to add to the law a provision allowing courts to consider future income potential in determining whether an individual is able to pay his or her debts. The lenders also urge prohibiting individuals from going on buying sprees on the eve of declaring bankruptcy.

Congress has thus been faced with two approaches to changing the 1978 bankruptcy law—one to deal with the judges' situation, the other to modify those provisions that triggered a massive increase in the number of bankruptcy cases (more than 700,000 are now pending).

In the meantime, the bankruptcy courts are barely moving.

The Judicial Conference of the United States, the policy-making arm of the federal judiciary, drew up an emergency interim rule to tide the courts over until Congress acts, but, says Judge Lee, "anybody who thinks the interim rule is working well is living in a fool's paradise."

PHOTO: BILL STRODE—BLACK STAR



Anyone who thinks that the emergency bankruptcy court rule is working well "is living in a fool's paradise," says Joe Lee, a federal bankruptcy judge.

The interim rule is of doubtful constitutionality, and those involved in corporate bankruptcies, in particular, are fearful of the consequences if they rely on the rule's validity. "Everybody's cautious about plunging into proceedings at this time," Lee says.

Under the interim rule, bankruptcy judges still have the authority to handle clear-cut bankruptcy issues, but a federal district judge can intervene—on his own or at the request of a party in the case—to rule on matters not an integral part of a bankruptcy case.

The upshot is that bankruptcy judges are declining to enter final orders, particularly in commercial cases involving large sums. They contend it is difficult to define a "straight" bankruptcy issue, and since they cannot claim absolute immunity, as their federal district counterparts can, they fear being held personally liable for civil damages because of actions that exceeded their jurisdiction, as defined by the Supreme Court.

Recently, in Utah, two bankruptcy judges ruled in separate cases that the jurisdictional powers conferred upon them temporarily by the Judicial Conference are invalid. In both instances, the judges told the parties seeking recovery of debts that they lacked the judicial authority to evaluate and grant the claims. A similar denial of power was made by a bankruptcy judge in San Diego.

AN ADDED question is the extent of the review the federal district judge must undertake. Concern has been raised about whether a simple countersigning of a bankruptcy judge's orders by a district judge constitutes "sufficient participation by an Article III judge to validate the order," says Bill W. Dixon, first vice president of

First Wisconsin National Bank in Milwaukee.

Pat H. Scanlon, chairman of the American Bar Association's bankruptcy committee, has been quoted as saying that the interim rule has fostered "as many views as you have bankruptcy judges."

The courts' problem is greatly complicating the resolution of business bankruptcies, says Francis Curran, director of governmental relations/retail banking for the American Bankers Association. "There's really so much more at stake and there are greater economic repercussions in a commercial bankruptcy than in a consumer one." The average consumer bankruptcy loss is around $15,000; commercial losses can run into the millions of dollars.

PHOTO: DAVID VALDEZ

Rep. Peter Rodino has offered a bill to set up separate federal courts to handle nothing but bankruptcy cases.

Business liquidations have bogged down because judges don't want to issue final decrees that could be found invalid.

PHOTO: BRAD BOWER—PICTURE GROUP

According to the bankruptcy division of the Administrative Office of the U.S. Courts, 65,407 businesses filed for bankruptcy during fiscal 1981. For fiscal 1982, that number climbed to 76,503. And for the first quarter of fiscal 1983, business bankruptcies in the U.S. rose by 63.4 percent, to 25,401, from the 15,580 declared for the same period in fiscal 1982.

To restore the bankruptcy court system, House Judiciary Committee Chairman Peter W. Rodino has introduced a bill that would confer Article III status on 227 bankruptcy judges, giving them lifetime tenure, increased salaries and protection from salary cuts.

The bill, which easily passed Judiciary's Monopolies and Commercial Law Subcommittee, would stagger the presidential appointments over three years through 1985. It would also create separate bankruptcy courts in which the judges would hear only bankruptcy cases and related matters and would never be assigned to other cases. Rodino insists that speed is "absolutely essential for success" in liquidations and reorganizations. He maintains that if bankruptcy judges were authorized to sit on nonbankruptcy cases, there would be "a real danger" of their being assigned to criminal cases "because of Speedy Trial Act considerations" or used to clear up the civil case backlog in the district courts.

Opponents of Rodino's bill argue that appointing so many new Article III judges would dilute the quality of the judiciary, that bankruptcy filings will decline in the future and the bankruptcy judges would have insufficient workloads, and that creation of a special court system to deal with one type of litigation could lead to calls for other specialized courts.

The Judicial Conference, the Federal Judges Association and the administration are all backing a bankruptcy court plan offered by Sen. Robert Dole (R-Kans.). Under Dole's approach, bankruptcy administrators serving five-year terms would have principal responsibility for disposing of uncontested cases involving very few or no assets. To handle the more complex cases, 190 district and circuit court judges would be appointed, with 115 of them eligible to handle both bankruptcy and nonbankruptcy cases.

THE IDEA of bankruptcy administrators is appealing to consumer bankers. "In consumer bankruptcies, the administrator idea would work fine because they are largely uncontested," says Drew Tidwell, general counsel for the Consumer Bankers Association. "Here in the United States, we tend to throw everything into the courts."

But Richard Merrick, bankruptcy judge from Chicago, views this kind of set-up as "jettisoning the only people with expertise in the matter—bankruptcy judges" and replacing them with administrators and district judges who have "no bankruptcy experience at all." Merrick further warns of a host of delays as litigation is "bounced from one tribunal to another." And L.E. Creel III, president of the American Bankruptcy Institute, predicts a rash of challenges of the administrators' authority.

In addition to the conflict over the structure of the bankruptcy courts, there is an additional dispute over whether judges' status should be considered separately from lenders' demands for reforms.

"I don't think the two issues have to be mutually exclusive," says Christine Edwards of Sears, Roebuck's government affairs office in Washington.

Donald Beall, chairman of the Credit Union National Association's bankruptcy task force, agrees that the resolution of both issues simultaneously "is not incompatible." A bankruptcy court system that is unquestionably constitutional "will create the certainty that commercial bankruptcies require," he says, and consumer reforms are essential if "lenders are to be convinced that a growing number of consumer borrowers do not look to bankruptcy as the way to control monthly payments."

According to Robert Evans, president of the American Financial Services Association, the number of personal

bankruptcies since 1979 has run at an annual rate of 450,000, twice the rate for the 12 years prior to 1979. The nation's bankruptcy courts are now relieving consumers of approximately $6 billion in personal debt annually.

Retailers, consumer finance firms and banks argue that debtors could easily pay about 25 percent of this amount.

Dole's Omnibus Bankruptcy Improvements Act of 1983, introduced with his court reform legislation, includes a tightening of repayment requirements and a future-income test.

Following in Dole's tracks, Rep. Marilyn Lloyd Bouquard (D-Tenn.) is sponsoring a bill, originally introduced last year by former Rep. Billy Lee Evans (D-Ga.), that revises eligibility standards for individuals wanting to declare total bankruptcy.

Rep. Mike Synar (D-Okla.) has unveiled a bill that, among other things, would have debtors undergo counseling to see whether partial debt repayment was possible.

RODINO IS sponsoring a consumer bankruptcy reform bill that lacks any future-income clause. Consumer credit lenders, although not agreeing with this omission, are still pleased that Rodino is acknowledging the importance of consumer amendments; his bill is a "positive step in the right direction," according to Jeanne Morin, regulatory affairs specialist with the U.S. Chamber of Commerce.

In the meantime, creditors have been steadily tightening their belts and changing their traditional lending practices. Frank Salinger, associate counsel with American Financial Services, notes that consumer finance companies are not giving unsecured cash credit but are requiring secured real estate and second mortgages to make sure they are not left holding the bag. Unfortunately, he says, this limits the amount of credit available to the "marginal but credit worthy customer."

Consumer bankers also "want the security of real estate or some type of property, which is a hardship on renters and young people," says Consumer Bankers' Tidwell. Credit card issuers like banks and retailers are resorting to more stringent credit scoring systems for new applicants.

Many banks are now going to court to fight bankruptcy cases, particularly when loss recovery is certain, and are aggressively pursuing late payers.

American Bankers' Curran concedes that "the increase in the numbers of bankruptcies in future months won't be as dramatic because of industry's reaction." But, he adds, "if we're going to get back to providing credit to people who were able to get it previously, we're going to have to get the [consumer] bankruptcy problem fixed." □

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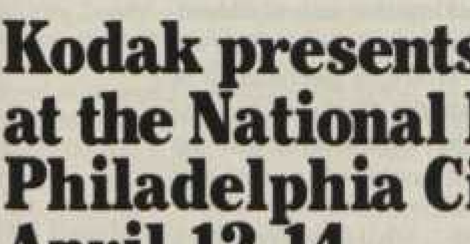


For Poets:

All Roads Lead to Pittsburgh

Incongruous as it may seem to some, Pittsburgh, famed for its industrial brawn has achieved world recognition as a center for poetry.

Since 1966, hundreds of poets from the U.S. and from abroad, have come here to read aloud their works to large and enthusiastic audiences. Few cities in the world — regardless of size — can match that accomplishment.

It hasn't happened by chance, of course. The mainspring has been the unique International Poetry Forum, founded here by Dr. Samuel Hazo, a noted poet in his own right, and the late Theodore L. Hazlett, Jr.

The forum has sponsored about 200 events since its inception. Some of these have been truly memorable: the specially commissioned play by Archibald MacLeish, *The Great American Fourth of July Parade,* marking the nation's bicentennial, and the participation in 1980 of Princess Grace of Monaco in *A Remembrance for Shakespeare.* The Forum also has initiated the printing of scores of books of poetry and many other activities.

Yes, poetry is alive in Pittsburgh: a city that offers so many different things for so many people.

A Happy Move From Top To Bottom

When Dick de Camara retired as CEO of Midas International in 1982, he and his son Robert (right) bought a Midas franchise in the Chicago suburbs.

YOU WOULD THINK that Richard P. de Camara, when he retired as president and chief executive officer of Midas International in April, 1982, would not have cared to return to the trenches—least of all to a Midas muffler shop.

But that is exactly what Dick de Camara did, at the age of 65. He expects that his three Midas-franchised shops in the Chicago suburbs will gross between $1.5 million and $1.75 million this year.

"I get up earlier and work later," de Camara says when he is asked to compare his new job with his old one.

But he is having a ball. "I didn't want to quit work," he says.

De Camara's career as a Midas franchise owner is his fourth. His first was as a stockbroker in Philadelphia, where he grew up. A descendant of a landed Mexican family—his father was a doctor—he was born in Ventnor City, N.J., an affluent suburb of Atlantic City. He attended parochial schools in Philadelphia and, after graduating from high school, landed a job with a brokerage firm.

He also joined the Pennsylvania National Guard, and by the time the 111th Infantry Regiment was called to active duty in 1941, he was a second lieutenant. De Camara saw action in the invasions of Kwajalein and Eniwetok islands in the Pacific.

At the end of World War II the Army held competitive examinations for regular commissions, and despite his lack of a college education, Dick de Camara won one. He settled down to a military career. "Yet I knew that sometime in the future I wanted to get into business," he says.

The Army developed a plan to send regular officers who didn't have degrees to college, and Dick de Camara was sent to George Washington University, in Washington. Within two years he had received a degree in government. Assigned to the Pentagon, he continued his studies at GWU, earning master's and doctor's degrees in business administration.

By 1962 Col. de Camara was an instructor at the prestigious Industrial College of the Armed Forces, a defense school for senior officers, at Fort McNair in Washington. And by then he had five children to educate and a burning desire to go into the business world. Some good offers were coming his way, and he accepted one from Koppers Company, of Pittsburgh, to become manager of international marketing development.

Dick and his wife, Marguerite, liked Pittsburgh, but the president of the St. Louis-San Francisco Railroad was persuasive, and de Camara moved to St. Louis in 1963 to become a vice president, charged with installing a computer system. In 1966 the Illinois Central Railroad also wanted a computer system, and de Camara moved to Chicago to become its vice president of administration.

Illinois Central Industries, the railroad's parent company (the name is now IC Industries), acquired Midas International in 1972. De Camara was put in charge of Midas' recreational vehicle group, and in 1978 he was named president and CEO of Midas International. When he retired last year, Midas had 1,600 franchises in the United States, Canada and Western Europe.

At that time, a company-owned Midas muffler shop had been operating for three months near de Camara's home in Elmhurst, Ill. Using $30,000 of his own money and $120,000 borrowed from a bank, de Camara bought the franchise and the equipment for the shop.

In 1982 de Camara's shop ranked second in sales among the 260 Midas franchises in the Midwest. De Camara and his son Robert bought two more franchises last year.

"I intend to be successful," de Camara declares confidently.

If he isn't, it won't be because he didn't make the effort. The first eight months he was at work at 7 a.m. and got home at 9:30 p.m.—six days a week.

"No time for two-hour lunches," he says. He brown-bagged and stayed behind the counter—writing orders, working the inventory, scheduling personnel and handling the books. And driving customers to work after they dropped off their cars.

Dick de Camara didn't tell those customers that it wasn't every day that a former CEO of Midas would give them a lift to work.

HOW IS IT, being a small businessman? De Camara recommends that other CEOs try it.

"I knew the rudiments of business," he says, "but I didn't realize just how demanding it is to be in business. I didn't fully appreciate the work involved in meeting government requirements.

"I really feel sorry for the businessman who doesn't have the education or experience in running a business," says the onetime corporate executive. "Government requirements are hard to keep up with."

These days he finds himself busy meeting such requirements and handling other tasks for his minichain of Midas franchises. He is dickering for a fourth shop, and he finds less and less time for tennis. Entrepreneurship has his competitive juices flowing.

"There's a business out there for everybody," he says. "If you are willing to work hard, you can be successful." □

—Grover Heiman

PEOPLE IN BUSINESS

PHOTO: LEN KAUFMAN

Mike Gordon, still youthful at 73, has become a Miami institution, thanks to the waterfront restaurant that bears his name and to his success as a speedboat racer.

Setting the Pace On Biscayne Bay

Mike Gordon started out in the restaurant business as a poor, teen-aged busboy in New York City. At 73 he's still busing tables, in Miami. Nothing much has changed, except that in the years in between Gordon has become a multimillionaire.

Gordon and the 36-year-old restaurant that bears his name have become Miami landmarks, like Biscayne Bay, which the restaurant overlooks.

Most other businessmen of his age and wealth have retired in comfort, but Gordon is ever-present at his main establishment (he has two restaurants now and says they gross $7 million annually). A 6:30 a.m. to 11 p.m. worker, he opens and closes the place each day—sometimes handling carpentry repairs, sometimes working as a bartender or cleaning tables, sometimes greeting customers.

Gordon is also a real estate developer, and he owns townhouses, auto and boat repair shops and a wholesale seafood business that sells to other restaurants. He invented a mechanical device, based on an old-fashioned clothes wringer, that removes meat quickly from lobster claws. It is patented in Canada and used in a large processing plant in Nova Scotia.

A speedboat racer who has suffered numerous broken bones, Gordon became a national champion in the sport in 1961. Last June he was voted into the boat racers' Hall of Champions in Detroit. He is too old now to be insured as a racer, but he owns two boats and sponsors a two-man team that races all over the country. In January he sponsored a race in Miami with a prize of $40,000—the biggest contest of its kind in the world.

"Mike Gordon is a symbol of the American dream," Rep. William Lehman (D-Fla.) commented recently in the *Congressional Record*. "[Gordon] has shown what free enterprise is all about."

Gordon, who came to Miami Beach 49 years ago as a bartender, actually failed at what he first set out to achieve—and that led to his success. When he returned from World War II military service, his goal was to sell bait to fishermen on the bay. He opened a bait shop, but sales were terrible.

Gordon's mother was on the scene, and she began cooking the bait fish, such as mullet, and converting it into tasty sandwiches, which Gordon sold to hungry fishermen for 50 cents each. Soon, Gordon converted his failing bait business into a small restaurant, which he called the Shack. It was located on the present site of his main restaurant. After leasing the land there for years, Gordon bought it. He now owns two square blocks along the bay.

Location was a factor in his success. So was Gordon's hard work. But his personality was the special ingredient. He became a "town character." Patrons at his restaurant frequently see Mike Gordon with a drink in hand, and he claims he drinks a bottle of sour mash whiskey a day.

Is that a fifth or a quart?

"Either one," he shrugs.

The Smart Sell For Hard Times

When the value of the Mexican peso plummeted last summer, an economic crisis hit the border city of Laredo, Tex., where Mexican visitors have traditionally accounted for a large share of retail sales.

The Retail Marketing Institute, Inc., of Fort Wayne, Ind., was called in to help set things right again.

RMI President Jeffrey L. Slutsky, 27, and his partner, Vice President Norman E. Woodruff, 44, started their distinctive marketing firm only two years ago, but it already has a national reputation.

"Distinctive" is a tame enough description for RMI, which is to the advertising business what Spike Jones was to Lawrence Welk.

Slutsky and Woodruff have built their reputation through an irreverent newsletter, *Streetfighter*, which costs subscribers $48 a year. *Streetfighter* is aimed at small merchants who want to promote their stores as cheaply as pos-

Norman Woodruff (left) and Jeff Slutsky help retailers to sell by their wits.

sible. "We advise our readers not to outspend their competitors but to outwit them," says Slutsky.

The newsletter is full of selling tips and schemes for promotions that get around the cost of newspaper, radio and billboard advertising. One obvious reason for *Streetfighter*'s success is that it reflects the times when it was born—a recession that made it harder for many small businessmen to come up with advertising dollars.

The two partners got quick national circulation for *Streetfighter* late in 1981 by distributing it across the country through the 3,000-member, Chicago-based National Association of Quick Printers. In addition, a special version of *Streetfighter* was distributed to the general public through the Pizza Hut fast food chain.

About half the ideas in the eight-page monthly newsletter are from readers, who are urged to contribute suggestions that have worked for them. RMI offers cash for the best tips.

A typical selling idea might involve cross-promotions—discount coupons or special prices offered to customers by noncompeting firms, like a car-wash and a cafe. Two visits to the car-wash might entitle a customer to a free breakfast down the street, for instance.

Much of the advice is on a very small scale—say, having your business cards cut a little larger than standard size so that they stick out when put in a stack with other cards in a customer's desk drawer. But some suggestions are on a very large scale.

At Laredo, for instance, Slutsky and Woodruff proposed transporting every high school student in town to other cities, where the students would distribute circulars advertising special sales in every Laredo store.

"The idea was too big for Texas," sighs Slutsky. "The town fathers decided against it. But putting the whole town on sale was a great idea."

A Big Winner In Negotiations

Gerard I. Nierenberg recently helped set up a course in Washington to teach U.S. Foreign Service officers how to negotiate with Third World diplomats.

Nierenberg, 59, smiled when he got the assignment. "As a matter of fact," he told a State Department official, "I've been teaching some of those Third Worlders the art of negotiation."

"We know," the official replied. "It's getting more difficult for us with them."

There is no doubt that Nierenberg and the unusual company he founded in 1966—the Negotiation Institute, Inc., of New York City—are in demand around the world. He is booked this year to run seminars in Denmark, Britain, Norway and Nigeria on how to negotiate successfully.

But the 110,000 people who have attended his two-day seminars, at $550 apiece (not too expensive, Nierenberg quips, because "we throw in lunch") have mostly been Americans—labor union and management representatives, U.S. arms-reduction negotiators, Internal Revenue Service lawyers, delegates to the United Nations.

Nierenberg's teaching methods are aimed at a full range of negotiations, from talking with the boss about a raise to settling international disputes. His company grosses nearly $5 million a year from seminars, manuals, videotapes, audio cassettes and a newsletter on negotiation skills. The institute, which has a staff of 10, is licensed to operate in 20 countries.

The idea for the company was born in 1965, when Nierenberg, who was already a highly successful Park Avenue lawyer, discovered there were no written guidelines for successful negotiating. So, as they say, he wrote the book. *The Art of Negotiating*, first published by Simon & Schuster in 1968, has sold more than 250,000 copies over the years, in 12 languages.

What, in a nutshell, is the best way to negotiate?

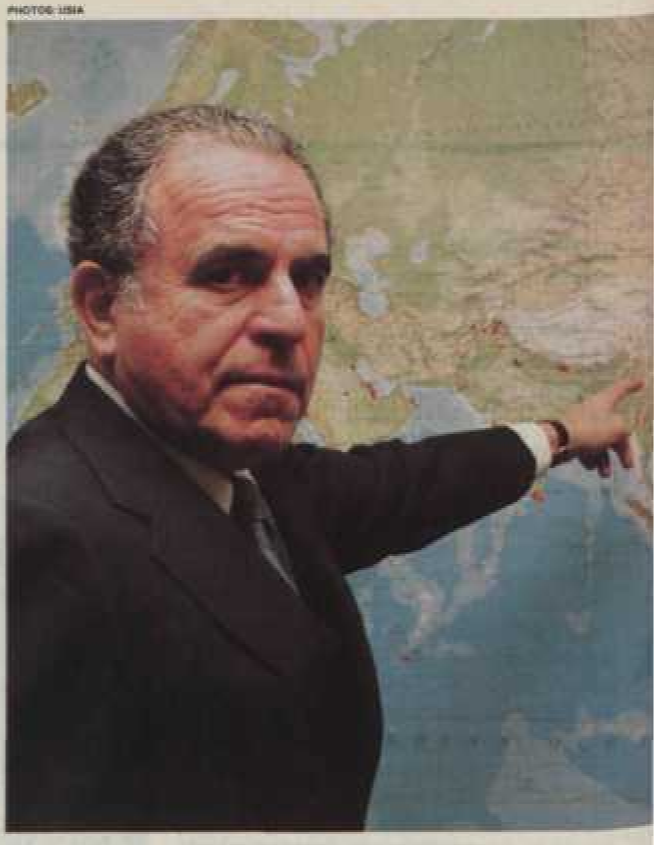
"That's simple," says Nierenberg. "Seek a win-win agreement, which is one that benefits both sides. If you view the negotiation as a contest between a winner and a loser, you may not be able to reach any agreement.

Park Avenue lawyer Gerard Nierenberg is in a worldwide business after observing "body language" at the negotiating table.

"With a win-lose approach you even fail to open your eyes to the other side's viewpoint, which is essential for any successful negotiation."

Nierenberg advises his clients to pay close attention to the "body language" of the other side. "Ear-tugging by your opponent, for instance, might indicate his eagerness to interrupt. Since he's not listening anyway, let him." □

PHOTOS: USIA



PEOPLE IN BUSINESS

Improving The Quality Of America's Voice

U.S. Information Agency chief Charles Wick believes business involvement will make his agency more effective abroad.

LAST YEAR, the U.S. Information Agency wanted to produce a television program calling for an end to oppression in Poland, but its funds for such purposes would cover only $38,000 of the estimated cost of more than $500,000.

For the agency's hard-charging director, Charles Z. Wick, the solution was obvious: an appeal to private business.

"Generous contributions from the private sector paid for all but a small part of this historic program," he recalls of the widely heralded documentary "Let Poland Be Poland." It was seen by an estimated 385 million people around the world via satellite and heard by another 165 million over the Voice of America and other Free World radio stations.

That incident was just one example of how Wick, a successful businessman before he joined the government, has put increasing emphasis on a role for the private sector in his agency's work.

In his latest fund-raising project, Wick is seeking $10 million a year in private money for a youth exchange program designed to counter European sentiment against the North Atlantic Treaty Organization.

As another effort to increase private sector involvement in USIA activities, Wick has established civilian advisory committees on new directions for such agency programs as books and libraries, radio programing, radio engineering, sports, motion pictures, labor, public relations, public policy foundations and cooperative efforts with chambers of commerce.

The latter program centers on AmChams—American chambers of commerce in 44 foreign countries. Their members are Americans working abroad and local business leaders associated with American commercial enterprises.

U.S. Chamber of Commerce President Richard L. Lesher is chairman of the USIA committee on chambers of commerce, and U.S. Chamber experts on international affairs serve on the panel, which advises Wick on his agency's relations with AmChams.

After an agency survey found varying degrees of cooperation between USIA officials and AmChams, Wick called for closer ties. He meets frequently with AmChams in his many trips abroad.

"The agency has a legislative mandate," Wick points out, "to encourage the assistance of the private sector in carrying out its public diplomacy programs."

As described by USIA itself, the agency's official mission represents one of the most extensive challenges in communications: "To tell the world about U.S. society and policies, in particular the U.S. commitment to cultural diversity and individual liberty, and to tell the United States about the world, so as to enrich American culture as well as to give the United States the understanding to deal effectively with problems among nations."

The Reagan administration has given higher priority to an aggressive USIA operation than did the Carter administration. The agency has been closer to the White House and more thoroughly and quickly briefed on national security issues.

Although that closeness is due largely to the administration's view of USIA as an important element of international policy, it was facilitated by the friendship of Wick and President Reagan. The two have known each other for more than 25 years. Wick has been a leading fund raiser for Reagan since the latter's entry into politics and has long been a member of the Reagan inner circle. As director, Wick reports directly to the President, although he turns to the Secretary of State for policy guidance.

THE AGENCY'S growing importance in foreign policy is reflected in its budget, which went from $454 million in fiscal 1982 to $559 million in the current fiscal year.

Wick, who had initially advocated spending reductions, says he sought additional funds in recognition of the fact that USIA "is waging a war of ideas with our adversaries."

The budget as approved by Congress fell short of what the Reagan administration had requested, however, and Wick views a closer relationship with the private sector as one way to stretch agency dollars.

Such cooperation already exists—American business people abroad are often asked by USIA officers to serve with citizens of the host country on boards or committees of bilateral organizations—but Wick wants more of it.

"Our objectives are similar," he says

of USIA and American business leaders, "and our partnership is an excellent example of the administration's belief that government must work with the private sector if it is to be successful. This is particularly true in foreign affairs."

Business also gains in the relationship, he says, because USIA public affairs officers abroad have a major effect on the climate of opinion in which American firms operate. These officers are in a particularly good position to correct distortions about U.S. business.

"Everyone benefits," Wick says. "USIA and the host country gain the benefit of U.S. business expertise, and we give businessmen the opportunity to expand their contacts, often in the most influential sectors of the host society."

Wick has placed greater emphasis on touting American goods. A weekly feature of the Voice of America is "New Products, USA," a program that uses information from the Commerce Department to highlight new U.S. products. Listeners are invited to write to VOA for information, and more than 500 did in 1982. Most were foreign businessmen wanting to manufacture or distribute products. USIA forwards these inquiries directly to the domestic manufacturers.

Wick wants more business executives to make themselves available for AMPARTS—American Participants Abroad. Essentially, this is a speakers bureau for the agency, which has a small fund to send some experts abroad. Wick would like CEOs in particular to take a few minutes or days and do their bit to improve the American image while they are in another country on business. His agency will handle the bookings.

"The CEOs can call me personally," says Wick. His phone number is (202) 724-9042.

Aides think this might take too much of his time, but Wick dismisses such fears. "I know how to talk to CEOs," says this successful businessman, who made a fortune because he saw opportunities and was willing to take risks.

Born on Oct. 12, 1917, in Cleveland, Charles Wick early made a musical career his goal in life. At the University of Michigan, where he had a band, the young pianist came to the attention of famed musician Tommy Dorsey, who hired him to do arrangements for the Dorsey band. Wick not only became self-supporting, he became affluent, for a college student. Dorsey would fly him to New York with completed new arrangements, put him up at a fine hotel and then fly him back to Ann Arbor $250 richer.

To spread his message, Charles Wick (right) ranges worldwide. With him here on the banks of the Zaire River is USIA's African affairs director, Arthur W. Lewis.

"I never had it so good," Wick says today. "That $250 was more than people doing well made in a month then."

After graduating from Michigan with a degree in music, Wick entered law school at Case Western and on graduation went to Los Angeles to represent Dorsey and other renowned bandleaders. From there he went with the William Morris Agency, which represents a variety of performers. Since those days he has been involved in a variety of business ventures.

He launched Mapleton Corporation, one of the first MESBICs—minority enterprise small business investment companies. With Ralph Evinrude, chairman of Outdoor Marine, he started United Convalescent Hospitals, which was later merged with Hill Haven, Inc., to become one of the nation's largest nursing home chains. Wick sold his interest in the chain in 1977.

In 1951 Wick went to England with his client Sarah Churchill, actress daughter of Sir Winston, a week before parliamentary elections. The doughty wartime Prime Minister, who had been displaced by Clement Attlee in 1945, was returned to power by a margin of four seats.

Churchill liked the fast-moving Wick and retained him to handle the U.S. sale of Churchill's multivolume *History of the English-Speaking Peoples*. It was Sir Winston who introduced Wick to the legendary detective Robert Fabian of Scotland Yard. Wick and Fabian developed and produced the television series "Fabian of the Yard," which has been shown all over the world.

"Sir Winston was very good to me," Wick says with a solemnity somewhat out of character for a man who loves to toss out one-liners (for example, sweeping into a room and saying: "Hold the applause").

Wick was in real estate and other ventures when he was named to his government post.

His management style is often disconcerting to those who have a tendency to waffle. Wick, with his legal background—he belongs to the California and Ohio bars—instinctively puts such people on the witness stand. Vague answers alert him in a visceral way, he says. "I don't fancy myself as the greatest manager in the world, but I do think I can recognize good ones at 30 paces," Wick says. "My definition of success is that you end up solvent. I've come close to going broke enough times to get a gut reaction, a twinge, and I've learned to put a 500-pound sledgehammer to work to make sure that the cataclysm doesn't happen.

"People in government usually haven't had the background a successful businessman has that alerts him to certain signals. I mean signals like 'They said they would have it soon' or 'The guy said don't worry about anything; he's just got a few problems.'"

Wick has emphasized the virtues of management by objective to the agency and feels he is making progress. He hastens to add, however, that the level of competence and professionalism among the more than 8,000 people in his agency—3,700 of them foreign nationals—is high.

"They are pros, but neither professionals nor anyone else can have great teamwork if there isn't a team," he says. "That implies management concepts, implementation and monitoring." USIA employes, he adds, "can fly successfully, but if you don't give them a flight plan, they aren't going to get there."

Charles Wick appears confident that he has the flight plan. □

—Grover Heiman

Legacy Of Freedom

Historian Allen Weinstein directs the infant Democracy Program, whose goals include reaching people like these barely literate Guatemalan voters; some of their "signatures" are thumbprints.

A program launched by President Reagan is aimed at spreading democracy's message abroad.

EVERY U.S. PRESIDENT hopes to bequeath to future generations a program or philosophy aimed at bettering the human condition. Theodore Roosevelt, for instance, gave the nation a vigorous policy of conserving natural resources. John F. Kennedy left the idea of a Peace Corps.

At this point in his Presidency, Ronald Reagan's legacy would appear to be new restraints on big government. But something equally durable may emerge as one of his major accomplishments. Known at the moment simply as the Democracy Program, it is a bipartisan effort to support the democratic process throughout the world. It will be largely financed with federal funds, but its operating structure will be quasi-private, to insulate it from government control.

Serving on its executive board are such political opposites as Democratic National Committee Chairman Charles Manatt and Republican National Committee Chairman Frank Fahrenkopf, as well as U.S. Chamber of Commerce Vice President Michael Samuels and AFL-CIO President Lane Kirkland.

Chaired by U.S. Trade Representative William E. Brock III, the program is designed to achieve by open and peaceful means—instead of covertly and through violence—democratic change in countries where the people lack the opportunity for full expression or are oppressed and lack effective political alternatives.

Samuels is the sole private representative of American business interests on the 13-member executive board. He says, "The more closed a society is, the more against the interests of business it is." But he adds: "If the program is carried out well, it will have to be controversial. Not all current governments are anxious to see the development of institutions that aim for long-term stability but that present short-term challenges."

The springboard for the Democracy Program was President Reagan's speech last June before the British Parliament, where he called for "a global campaign for democracy . . . which will leave Marxism-Leninism on the ash-heap of history, as it has left other tyrannies which stifle the freedom and muzzle the self-expression of people."

Reagan told the applauding British lawmakers that he hoped to launch a major initiative that would promote freely operating political parties, press, universities and unions. The goal would be to allow fettered peoples "to choose their own way, to develop their own cultures, to reconcile their own differences through peaceful means."

The program might prove especially valuable in countries where dictatorships of either the left or the right could collapse in the midst of economic disaster and labor union unrest. A takeover by extremists on the other side would then be a real threat.

In the past, covert American intervention in such situations was not unknown, and controversy over such intervention hurt the U.S. image. Now the United States can work openly to persuade others of the value of the democratic process.

SIMILAR EFFORTS have already enjoyed success in Europe. The Democracy Program is patterned on the political foundations developed in West Germany after World War II. Each major political party has a foundation or institution to train its members in domestic issues and to assist political, labor and civic groups in other nations, using West German government funds.

Nearly a decade ago, when the longtime dictatorship collapsed in Portugal and free elections were to be held there, the Communists moved in for a takeover. But the West German foundations established workshops and grassroots training programs in Portugal, stressing the advantages of free political institutions. The Communists did not gain control of Portugal.

Ronald Reagan's version of the West German foundations has begun humbly, with a $150,000 planning grant from the State Department's Agency for International Development. The President's new budget calls for $65 million for the program in fiscal 1983-84.

Allen Weinstein, editor of *The Washington Quarterly*, a scholarly review, and director of the Democracy Program in this formative period, says, "With this kind of program the United States can take a quantum leap in the democracy game in the world." But he adds, "I am not a Utopian. I don't see anything but bumps in the road."

—Seth Kantor

How To Measure Your Company's Value

ILLUSTRATION: WILLIAM COULTER

Want to sell your business? There are things you will need to know, if you are to get a fair price.

By Alan W. Johnson

WHEN Julius Block was ready to sell his San Francisco company, Brooks Cameras, finding the perfect buyer was not a problem. The company, which retails cameras and other photo supplies and services, would be sold to Brooks' employes under an innovative employe stock ownership plan. Continuity of the business, jobs and seniority would be guaranteed. Yet Block had one big problem: How much was his company worth?

Ask a manager about the value of his business, and you will probably be handed the latest balance sheet. Something about accounting statements makes us take them as the final opinion, but many other considerations apply. Brooks Cameras had a loyal customer base, a history of growth, dedicated employes, a favorable lease and a good credit rating—all worth something.

For a publicly traded company, the marketplace establishes the value. Shares are worth what buyers on the stock exchange are willing to pay. In a closely held corporation there is no active market for the stock; little if any trading takes place, and restrictive agreements may not permit sales to outsiders. Some other measuring devices are needed.

Professional appraisers use a wide variety of valuation methods. Their job is to select techniques appropriate to the nature of the business and the purpose of the appraisal. A company destined for liquidation often brings the lowest value; a promise of growth and big future earnings may deserve the very highest. All the methods used can be grouped into three basic approaches: A company is worth what it owns, what it earns or what it will bring in the market.

The first approach is a matter of simple arithmetic. Add up the book value of the company's assets—real estate, inventory, equipment, receivables—plus appreciation for increases not reflected in accounting statements.

Include a value for goodwill and other intangibles and devalue questionable assets. Do not consider present or future earnings.

Under the second approach, past or predicted earnings are the major criterion. Investment in assets is assumed to have only one purpose: earning a profit. The value of any business depends in part on the future benefits its owners may reap from it, but the true earning potential of many closely held companies is masked by a variety of devices used to reduce taxes or favor the stockholders. Some of them must be stripped away when past or future income is used as an appraisal method.

The third approach—letting the market determine a company's worth—would take into account a legitimate offer or what a similar company recently sold for. However, it is not easy to find comparable sales or get facts and figures. Closely held companies are usually sold privately. They may be competitors. But some trade associations provide such data and rule-of-thumb formulas.

Using several methods should give a better fix on fair market value. Some techniques simply don't fit the nature of the business, others may greatly undervalue.

Since valuation often carries tax implications, Internal Revenue Service regulations must be considered in the appraisal. IRS Revenue Ruling 59-60 describes relevant factors:

- Prior sales of company stock.
- Nature and history of the business.
- General condition of the economy.
- Comparison with sales of similar businesses.
- Earnings history and forecast.
- Company's financial condition.
- Dividend paying capacity.
- Goodwill and intangible assets.

Different weights may have to be assigned to these factors. IRS cautions: "Valuation is not an exact science. A sound valuation will be based on relevant facts, but elements of common

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sense and informed judgment must enter into the process. No useful purpose is served by arbitrary averaging of valuation methods."

Let's explore some of the calculations you might use on your company. Examples are from a real business with a fictitious name, Grand Supply.

Book value. On most statements it is called net worth or stockholders' equity and represents the sum of common stock, additional paid-in capital and retained earnings. For Grand Supply, the book value is $860,000.

Adjusted net worth. A close look at the underlying assets is the next step in valuation. Real property may be grossly undervalued when measured against current appraisals. Buildings bought long ago and carried at depreciated prices are a common hidden asset. Check out your insurance appraisals. Inventory is often worth more than its value on the books. Equipment, receivables or investments may add or subtract from true value.

Take your best shot at unrealized appreciation and add it to your book value to get an adjusted net worth. Grand Supply's new appraisal of its warehouse showed a $77,000 increase over the depreciated value. The adjusted net worth thus becomes $937,000.

Excess earnings capitalization. This is the first of several methods involving earnings. We assume that shareholders are entitled to a reasonable return on the adjusted net worth—say, 15 percent. For Grand Supply, 15 percent of $937,000 is about $140,500. Any after-tax profits above this amount are attributed to goodwill. So the company's $187,500 of net income minus $140,500 leaves $47,000 of excess attributed to goodwill.

This goodwill is capitalized at a selected rate—say, 20 percent—to yield a value of 5 x $47,000 = $235,000. Finally, this $235,000 of goodwill is added to the adjusted net worth. $235,000 + $937,000 = $1,171,000. This is a reasonable range (about 25 percent of adjusted net worth) for goodwill not attributed to a specific intangible.

Dividend paying capacity. Actual dividends paid by closely held companies are meaningless since they are seldom based on the capacity to pay. Earnings are retained and sheltered. However, IRS uses the capacity to pay as a measure of worth, whether or not dividends are declared. Average dividend yield from comparable publicly held companies, usually quite low, must first be established. Dividends paid in Grand Supply's line of business equaled about 10 percent of net income: $18,700. If we could also determine that, on average, this represented a 1½ percent yield on the company market value, $18,700 would represent 1½ percent of $1,250,000. Here is another case where industry figures from trade associations would make calculations simpler.

Price-earnings ratio. This is a more familiar appraisal device. Once again we need publicly traded firms to use as benchmarks. Divide the market price of the stock by the annual earnings per share. Average as many as you can find that are similar to your business. This ratio can then be applied to your net income. It is more conservative to use average income for the past five years, perhaps weighted to favor recent earnings. If a price-earnings ratio of 7 is used for Grand Supply, the value is $187,500 x 7 = $1,312,000.

Adjusted net worth plus intangibles. A large body of tax law governs assets not usually shown on balance sheets. Patents, royalties, licenses, exclusive territories, mailing lists and leasehold interests are examples. Some can be individually valued; others are inseparable from the going business.

Suppose Grand Supply developed a unique packaging device. What is it worth? The cost saving it produces is one measure. Royalty income or relief from paying royalty to others is another. The cost to create the equipment or the estimated cost to buy it is a third. In general, the value of all identifiable intangibles is added to the adjusted net worth. The packaging device plus other intangibles totaling $500,000 are added to $937,000, resulting in a value of $1,437,000.

Capitalization of earnings. Now we are looking at earnings before they are diluted by contributions to profit sharing or income taxes. A weighted average for five years is again a good approach. This pretax, precontribution income is then capitalized. Determining the appropriate capitalization rate is a much debated topic. It might be the historic rate of return for the business, it could be a much higher rate, associated with higher risk. For Grand Supply, $300,000 in pretax profits capitalized at 20 percent produces a value of $1.5 million. This is about the maximum most informed buyers are willing to pay: five years of future profits.

Following a year with no or low earnings, it is important to identify the contributing factors and trends. Generally bad economic conditions, labor problems or catastrophic events can be identified as special situations that do not seriously affect long-range inherent value. When there are no earnings, you can follow a number of methods:

- Explain it, modify it or eliminate it. If the loss is a single year, IRS suggests excluding it from an average or adjusting it for unusual circumstances.
- Try a discounted cash flow valuation, based on future earnings forecasts. Add five years of cash flow to the estimated liquidation value of the assets in five years.
- Rely on a carefully adjusted asset valuation to establish a solid foundation of equipment, inventory and receivables.
- Develop marketing information on competing companies, their growth and their profit margins to bolster earnings forecasts.

There are other observations that may modify the value placed on your business. Free cash flow is one measure of strength. Net income plus depreciation should be greater than capital spending plus inventory investment. This is the source of repayment of debt and growth. The personal involvement of the management is important. Will the business suffer if the management leaves? The quality of the assets and the reputation of the firm can also affect value.

Which of these methods is best for your company? There is no single correct answer. A range of values will develop, often with several that cluster together. Depending on how earnings have been treated by management, the range from $1.2 million to $1.4 million might be right for Grand Supply. For Julius Block and Brooks Cameras, a capitalization-of-earnings method well supported by adjusted assets was selected.

A discount from the fair market value of closely held stock for minority interests has been used since the Securities and Exchange Commission was established in the early 1930s. Courts and IRS recognize that restrictions on disposition and the lack of a market reduce the true value of the security to minority owners. Sales of small quantities of stock to employes are a common example. A stock valued at $40 per share might be discounted 25 percent to $30 per share. Sales to family members or employe stock ownership plans where there is a repurchase agreement may not qualify.

Business valuations are becoming routine in many situations other than selling the company. Employe plans, taxes, retirement, mergers, acquisitions, expansion plans, banking relationships, death of a principal, divorce, partnership agreements, IRS audits—any one might be a stimulus to a valuation.

It is good business to have a reasonable understanding of what your firm is worth and of how values are calculated. Professional appraisals protect the interests of all stockholders. □

ALAN W. JOHNSON *is president of Johnson Hershey Corporation, of San Rafael, Calif., a management consulting firm specializing in retailing, marketing and business valuations.*

To order reprints of this article, see page 60.

The Hidden Tax On Retailers

A study finds that business bears heavy costs in collecting state sales taxes.

COLLECTING and remitting state sales taxes adds significantly to operating costs of retailers, particularly smaller ones, a new study shows.

Costs range from 2.03 to 3.75 percent of taxes collected, according to the study, which Peat, Marwick, Mitchell & Company did for the American Retail Federation.

Susan G. Flack, the federation's vice president and counsel, comments: "The study substantiates our claim that collecting and remitting these taxes adds up to a major cost burden for retailers today. Unfortunately, once tax-related activities have been automated as much as possible, there is little remaining opportunity to reduce sales tax collection costs."

The only possible source of relief, she adds, is fairer compensation from the states for collection costs and revision of tax laws that make collection and remittance particularly costly. Some states allow retailers to retain a portion of the taxes collected to offset collection costs.

Peat, Marwick's tax study covered seven of the 45 states that, along with the District of Columbia, levy sales and use taxes. The states, with the compliance cost expressed as a percentage of taxes collected, are Arizona, 3.75; New York, 3.23; California, 3.13; Maryland, 2.96; Pennsylvania, 2.88; Illinois, 2.79, and Missouri, 2.03. Credits allowed against collection costs account for the lower costs in the last four of the seven states.

Dan Cooper, the Peat, Marwick principal who directed the survey, says that determining an item's tax status and the applicable tax rate was the largest single cost element in retailers' compliance with state sales and use tax regulations.

In most states the cost of those steps ranges from 1 to nearly 2 percent of taxes collected and is largely borne by food and drug stores, the study says. These establishments tend to handle a significant number of both taxable and tax-exempt items at their central checkouts.

Other significant cost factors are tax calculations, financing of sales taxes as a factor in credit purchases, unrecovered taxes from bad checks and uncollectible credit accounts, and money handling and counting.

The study notes that, on the plus side, compliance costs are reduced because retailers can use sales tax revenues between the time of collection and the time of remittance.

Overall, Cooper says, the study found that smaller retailers incur significantly higher tax-related costs than larger retailers, particularly for cost factors directly affected by sales volume.

ON THE OTHER HAND, these retailers enjoy the largest use-of-funds credit, since the larger retailers generally have to return funds to the states more frequently.

Peat, Marwick has developed a computer model that can be used to determine compliance costs in any state under current conditions and as tax laws change.

The model can also be used by an individual company to determine its costs in collecting sales and use taxes.

At present, the study points out, only 27 states imposing sales taxes compensate retailers in some form for collection costs; the remaining 18 states and the District of Columbia do not.

"In several states," Peat, Marwick says, "legislation has been introduced during the past few years to reduce the allowance earned by retailers to partially cover sales tax collection costs." It was this trend that led the American Retail Federation to commission the study, "so that current, objective compliance cost data will be available to substantiate the need for equitable allowances."

The study covered a number of "compliance elements" involving costs to the retailer:

Collection—the actual receipt of sales tax monies at the point of sale.

Reporting—the recording and reporting of sales tax information.

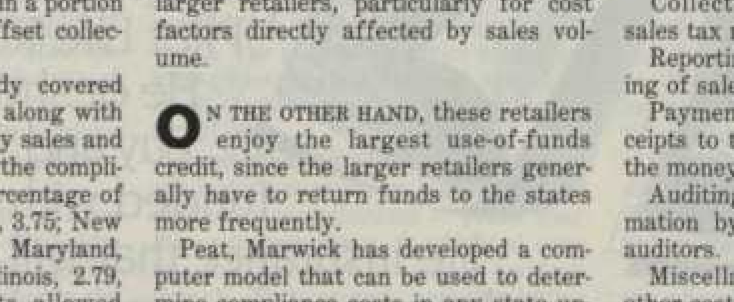
Payment—remittance of sales tax receipts to the state and the handling of the money between payments.

Auditing—review of sales tax information by internal, external or state auditors.

Miscellaneous—administrative and other costs not assignable to the above classifications.

A number of firms, the study found, incurred one-time or episodic costs of as much as 3 percent of collections. Some examples:

- One retail drugstore chain that modified its inventory classifications to conform with the state tax profile required 40 hours of additional work from its headquarters accounting personnel and 60 hours of additional clerical time in each of its 45 stores.
- A California firm spent $185,000 extra on taking inventory to determine sales tax on wholesale purchases. □



Vice President Susan G. Flack of the American Retail Federation says states should try to reduce retailers' sales tax collection costs and should compensate the retailers more fairly for them.

Reform Federal Pension Systems?

Arguments for: Federal pension systems create an island of privilege for those they benefit. For the nation as a whole, they create a ballooning addition to the tax burden. In 1968, for example, $1.4 billion was budgeted for the primary civil service retirement system. The figure was $18.4 billion in 1981, and it is expected to top $30 billion in 1986. The 7 percent of salary that the 2.8 million workers in this system pay covers only a fraction of the cost. Unfunded liabilities, which taxpayers eventually will have to pay, grew an estimated $66 billion in fiscal 1980 alone. Meanwhile, such liabilities for the military retirement system grew an estimated $75 billion. Federal pensions contrast most graphically with typical private pensions in two ways: They rise fully with the consumer price index, and they are payable comparatively early. The roaring inflation of recent years meant whopping pension increases for federal retirees—increases generally far greater than raises they would have received on the job. Most private pensions did not rise with inflation. Civilian federal workers can draw pensions with no early retirement penalty at 55, after 30 years. Military personnel can do so after 20 years (median military retirement age: 39). It is high time to reform systems that, depending on salary level and years worked, can pay $30,000, $40,000 or more annually to people who retire long before they would if they worked in the private sector.

Arguments against: Moves under way to get Congress to change federal pension systems are an example of the tendency to make whipping boys out of people on government payrolls. Every time there is a budget problem, the federal worker gets it in the neck. Upper-level employes' pensions that make juicy topics for the media are not typical. Actually, the average pension for full-career federal civilian employes is $18,000, and unlike the Social Security pension, it is taxable. There is talk of future proposals to prevent military retirees from drawing their 20- or 30-year pensions until they are in their 60s. But early pensions have been a major incentive for choosing risk- and hardship-filled military careers, and top-drawer military careerists are vital to national security. Competent civil servants, too, are necessary. One reason many choose federal careers is the pension. The administration is proposing that the percentage of salary going into the civil service retirement system be raised, that restrictions on early retirement be phased in—an employe retiring before 65 would lose a percentage of pension for each early year—and that pensions no longer move fully in tandem with the consumer price index. Such changes would be a breach of contract. The administration also wants new civil servants placed under Social Security and a supplemental federal pension system developed for them. But is it fair to tie them to the troubled Social Security system?

Verdict: Curtail Defense Buildup

By a narrow margin, readers answering the "Where I Stand" question in the February issue of NATION'S BUSINESS believe that the administration wants to spend too much too fast to increase America's military might. Fifty-two percent agree with arguments that (1) projected outlays of $1.6 trillion over five years could be cut back without seriously harming defense but with helpful impact on the nation's deficit problems and (2) that a slowdown in the buildup would make Pentagon spending more efficient. Forty-eight percent agree with arguments on the other side—principally, that a Soviet military buildup makes acceptance of administration plans imperative. A Gallup poll a month earlier (see the article beginning on page 37) showed 45 percent of the general public favoring cutbacks in U.S. spending for defense.

Should Federal Pension Systems Be Reformed?

YES ☐ **NO** ☐

Mail to: Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062

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PHOTO: WAYNE SORCE

Stockbroker Muriel Siebert doesn't like the idea of investing in long-term bonds.

PHOTO: PETER MENZEL—STOCK BOSTON

Money-Making Manual For Investors

From stocks to stamps, coins to commodities, opportunities abound. But it's a time for caution.

By Stephen M. Aug

IF A PHRASE can summarize the best advice to investors this year, it is this: Be careful. That applies whether you are planning to buy stocks, bonds, precious metals, commodities, real estate or "collectibles"—anything from antique cars to stamps to collectors' plates.

Even those closest to the collectibles market are advising caution. The market for most collectibles virtually collapsed over the past two years and a lot of investors got burned—badly.

Commodities are one of the riskiest of investments. Prices of some have already risen—lumber, copper and steel scrap, for instance. That's because all of those commodities are used in construction or in automobiles, industries that have begun to recover from the recession. Usually, commodity prices rise during a recovery.

Still, Donald Ratajczak, director of the Georgia State University economic forecasting project, contends that although his projected prices for lumber and furniture have been revised upward to reflect stronger product demand than previously expected, "all other major industrial prices have been reduced." He points out that during the first two months of this year the prices of consumer nonfood items dropped 1.3 percent. So, if his forecast of only a 0.1 percent increase in prices of finished goods materializes in 1983, "it will be the lowest increase of commodity prices as measured by the producer price index since 1963."

Aside from cash, the most liquid investments are securities—and here the advice from analysts is remarkably similar. Albert Horwitz of David J. Green & Company, an institutional investment advisory firm, says, "Last year the market was very much a portfolio manager's market, in the sense that if you were properly invested, especially in the second half of the year—if you were fairly well committed and didn't get caught with excessive cash—you did very well. And I think in the coming year, there's going to be much more of an analysts' market. It's going to make a lot of difference which stocks you're in. And I think it may have even less to do with the industry than it does with specific stocks."

Nevertheless, there is usually a predictable sequence in a stock market re-

STEPHEN M. AUG*'s business and economic reports are a daily feature on the American Broadcasting Company's televised program "World News This Morning."*

covery following a recession. As Monte Gordon, vice president and director of research at Dreyfus & Company, explains, the sequence begins while the economy is still in the recession.

High interest rates brought on the recession that is now ending, so as interest rates began to come down, the stage was set for recovery—which for the stock market began last August. The first run at the market was into interest-sensitive stocks: utilities, banks, savings and loan associations.

Then the housing, automobile and steel industries began to benefit, along with some of the cyclical industries like chemicals and ancillary industries like furniture, appliances, electronic home devices, automobile supplies, wood products, lumber and plywood.

Next were the consumer-related stocks: retail trade, apparel, textiles. These were followed by commodity-related stocks—aluminum, steel, copper, lead, nickel—as commodity prices started moving up.

The last to move will be the capital goods companies—machinery, machine tools—because capital investment doesn't rise until a recovery is well under way.

OF COURSE, there are always exceptions to generalizations, and in this market some stocks have responded less strongly than others. Some analysts seem disinclined to advise investments in basic steel, for instance, largely because of the industry's structural problems. Many steel companies simply will never see their former levels of production again.

At Merrill Lynch Pierce Fenner & Smith, Steven Resnick, senior investment strategist, recommends high-technology stocks. "They have the potential for tremendous price appreciation if the economy can come back. These are high-unit-growth companies, which means that if the market multiple moves up, the high-unit-growth companies will enjoy a more leveraged move of price-earnings expansion."

For example, the average price-earnings multiple of Standard & Poor's 500 stocks is about 10, but the average for high-technology stocks is about 20. If the S&P group moves to a price-earnings ratio of 12 or 13, that could mean technology stocks selling at possibly 30 times earnings.

Of course, there is always a risk in technology stocks. An investor must make certain he does not own one whose product line is obsolescent. One way to protect yourself is to buy several of these companies, thereby spreading your risk.

A second area Resnick favors is the low-cost producer in a heavy industry. Look for the low-cost producer in such industries as paper, chemicals and aluminum, he says, because once production goes up, these firms could show substantial growth while higher-cost producers were still struggling.

Peter Carman, director of research at Sanford C. Bernstein & Company, says his firm's investment portfolios were dominated late last winter by banks and energy. "Our long-term record is in the top 1 percent because we buy what everyone else doesn't want," he says. "Rather than looking at what's going to happen over the next few months, what we really care about is longer-term prospects for earnings and dividends."

Carman likes some oil companies because they have been attractively priced. Also, oil companies with large amounts of natural gas priced below the oil equivalent price will be relatively less affected by an oil price drop.

As for bank stocks, Carman says investors clearly have been worried about the impact of loan losses and the super NOW accounts and money market accounts. "Our belief is that this will be 'competed out' and that banks will price their products to cover costs plus a return," Carman says. But it pays to be careful about just which bank stocks to invest in.

PHOTO: WAYNE SORCE

Monte Gordon: The stock market recovery is following a predictable pattern.

Bank stocks aside, banks have become very competitive as a place to park your money for a while. Their money market accounts have drained billions of dollars from money market mutual funds because the interest rates are competitive and they offer federal insurance for deposits up to $100,000. Again, it pays to shop around for the best return, because money market mutual funds will try to remain competitive.

Money market mutual funds have been drained for another reason as well. Money has gone into the stock market—not only as direct investments but indirectly through mutual funds. The mutual fund industry reported more than a $6 billion inflow during the final quarter of last year, its best quarter ever. So a mutual fund may be the right place for the investor who has no time to spend selecting individual stocks.

And what about bonds? Muriel Siebert, the former New York State banking commissioner who is now back in her own brokerage business, Muriel Siebert & Company, warns about long-term bonds: "I wouldn't go out 10 or 20 years with my own money in bonds, because if I did go out that far and if inflation were rekindled and interest rates went back up, I'd have big losses in fixed-income securities."

One alternative to the conventional bond is the so-called zero-coupon bond. No interest is paid—but the investor buys the bond at a set price and at the maturity date cashes it in for full face value.

Still another alternative to the fixed interest rates offered by bonds are good quality utility stocks, which may yield 10 or 11 percent. Over the years, these dividends should go up and provide a still higher yield on the original investment—as opposed to bond interest rates, which never change.

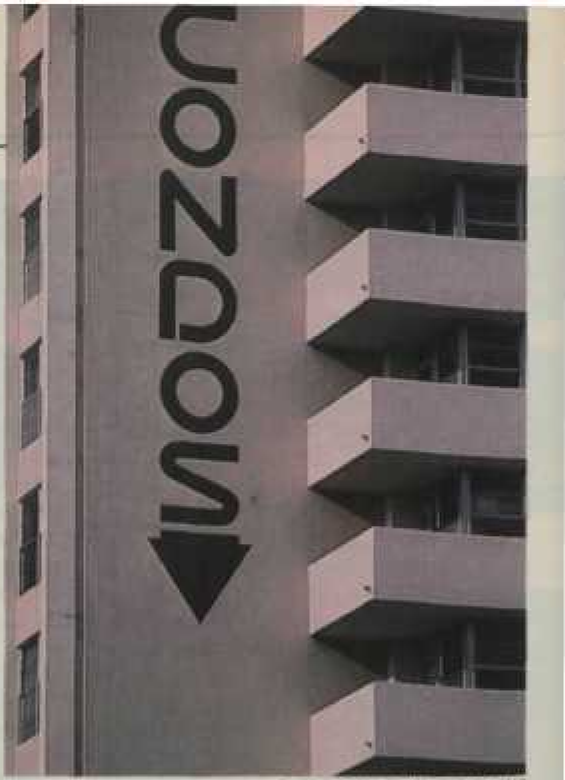
WHAT BOTHERS a lot of analysts, when they think of bonds, are those huge federal budget deficits looming ahead. As William W. Helman, economist at Smith Barney Harris Upham & Company, put it recently:

"There is little question that the large prospective federal deficits pose the danger of higher interest rates later if the growth of money and credit is not restrained in the interim. Such higher rates would result from a new round of rising inflation as private investment demands increase and, along with the deficit, push the economy up too fast or too close to the level of full resource utilization."

High interest rates are blamed for almost destroying the market for collectibles. With money market funds paying 18 to 20 percent, it made little sense to put money into something that paid no dividends or interest. Further, the value of collectibles was not appreciating at rates as great as the returns investors were able to lock in when interest rates were high.

But with rates now coming down, col-

PHOTO: JAMES BALOG—BLACK STAR



Commodities are becoming more attractive investments as the automobile and construction industries recover and increase their demand for raw materials. Lower interest rates have stirred activity in real estate.

PHOTO: CHRISTOPHER MORRIS—BLACK STAR

lectibles are again attracting investors.

One of the oldest forms of collecting—and one favored by some investors for more than a century—is stamp collecting. Stamp values began falling in 1980-81. The weekly *Linn's Stamp News* began an index for categories of stamps at the end of 1981, setting a base of 100 on Dec. 31, 1981. Since then the decline on average has been to about 78. As of mid-February the biggest decline was in 20th century U.S. stamps, which had fallen to an index level of 70. American 19th century stamps had held up a bit better.

Michael Lawrence, editor of *Linn's Stamp News*, emphasizes that he does not promote stamps as an investment although his publication has an investment column on stamps.

In stamp collecting, supply is important—and stamps that were available only in smaller numbers are the ones whose values will appreciate most.

The best way to buy stamps is at a stamp auction, either by mail or in person, although many individual dealers may be open to negotiation on price. Even in retail stores, 30 or 40 percent discounts from prices in the widely used Scott's catalog are common.

Like other collectibles, stamps are not all that liquid. Pay $100 for a stamp today and try to sell it tomorrow and you may find that all you can get is $40.

As WITH STAMPS, the value of many coins depends on their rarity. Other than that, you may sell a coin simply for its value as a metal—whether gold or silver. The U.S. government is a major supplier for coin collectors, not just of ordinary coins but of commemoratives, proof coin sets and medals.

Margo Russell, editor of *Coin World*—published by the same firm that publishes *Linn's Stamp News*—says the coin market has been on a plateau, although plus signs have begun to show up in recent months. Last October, for instance, a U.S. $3 gold piece and a rare 1822 "half eagle" ($5 gold piece) were both sold for record $625,000 bids at an auction in New York City—the highest price ever paid for regular coins issued by the U.S. Mint.

Most coins must be held for three to five years if you wish to realize a profit. The exceptions, Russell says, are the real rarities.

Some coins are valuable solely for their metal content, and these depend for their value on the current price of silver or gold.

A heavily circulated Morgan silver dollar may be worth only the bullion value of its silver, but the same coin in uncirculated state may be worth well into the thousands of dollars.

Among coins sold for their bullion value, the South African krugerrand is the most popular. It weighs exactly one troy ounce of fine gold, is widely traded and is accepted all over the world although it sells at a small premium over the value of its gold.

The most convenient way to hold silver is to buy old American .900 fine silver coins; they are sold by the roll or by the bag. These well-circulated coins are considered junk by true coin collectors; their value is solely in their metal content.

Of course, the collectible market embraces far more than just coins and stamps. It includes everything from old furniture to antique cars to paintings and prints. Here too, specialists say, for the most part prices collapsed over the past couple of years.

Sylvan Cole of Associated American Artists, possibly the largest gallery in the nation devoted exclusively to the sale and exhibition of original prints, advises that "no reputable, legitimate dealer, by and large, thinks of works of art as an investment. I think that one of the things that this leveling off did is to take out of the market a lot of these so-called 'investor types.'"

STILL, COLE SAYS, this doesn't mean works of art won't appreciate in value. He contends that prices for prints have not really gone down—they have leveled off.

Today's soft spots are American prints from 1850 to 1950 and some of the "lesser old masters." But even these have moved up in price. Ten years ago they sold for about $100, and now for $1,000 to $1,500. A Thomas Hart Benton lithograph that could have been purchased in the early '70s for $75 would cost between $1,500 and $2,500 today.

What is an original print? The artist himself drew on the stone or etched the plate, as opposed to reproduction by photomechanical means. An original print may sell for $100,000 or more if it is sufficiently rare and perhaps of historical value.

Advice: Buy from a dealer who has been in business for a few years. This is true in any area of collectibles. And one area where you may need more knowledge—and probably ought to bring along your own mechanic—is collectible automobiles; more particularly, antique cars, which are generally cars at least 25 years old.

Tony Hossain, editor of *Old Cars Weekly*, predicts a 15 to 20 percent rise in the value of old cars this year. "A

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The market for collectibles suffered while interest rates were at record levels, but with rates lower, investors are looking again at items ranging from coins to cars. In all such areas, investors should proceed only with caution—and, often, expert advice.

great deal of interest exists right now in 'muscle cars,' big V-8s, the Pontiac GTO, high-performance Ford Mustangs, Chevy Camaros—cars from the mid-'60s to the mid-'70s," he says. "There's lots of nostalgia for 1960s cars. They provide a certain kind of excitement that cars today do not offer."

Bargains? Hossain says they can be found in the Ford Model T and Model A and the lower-priced cars of the 1930s. But the potential for appreciation is not really there—there are too many of them, and they have been bargain-priced for some time. A Model T in running condition, Hossain says, goes for about \$5,000. Price when new: anywhere from \$600 to \$1,200.

Krause Publications of Iola, Wis., publishes *Old Cars Price Guide*, a quarterly compilation of prices for just about every car ever built, probably an essential guide for anybody who is in the market for an antique car.

Then, of course, there is real estate. Real estate prices are a function of interest rates, and everybody knows what the high interest rates of the past three years have done to the real estate market—especially housing. So, with interest rates falling a bit, this may be a good time to look.

BUT WHAT KIND of real estate? Residential? Offices? Shopping malls? It is somewhat more complicated than buying a townhouse that you intend to rent out—while it appreciates. If you don't want to be bothered with tenants, or with doing all the research necessary to find the right piece of property in the right area, it is possible to let somebody else do the looking. And the managing.

Robert Hartman, vice president and director of marketing at Merrill Lynch Real Estate, suggests a limited partnership. The typical investor in such a situation buys in the \$20,000 to \$25,000 range. For the same amount, an investor could buy his own duplex or small apartment, finance the rest and become concerned with rent collection, building management, mowing the lawn, painting ... but a limited partnership is a viable alternative.

The investor gets professional staff—maintenance and management. The management examines population patterns and tries to anticipate markets, in the hope of finding the right time to sell a property, take a capital gain and redistribute the gains to the partners. A syndication also gives the investor geographic diversification. Merrill Lynch, for instance, forms seven to nine syndications a year—one large one was worth \$100 million and comprised about 12,000 investors.

One disadvantage: Real estate syndications do not offer the liquidity that common stock offers. Typically, says Hartman, it is a buy-and-hold situation of 5 to 11 years.

And then, there are always collectors' plates ... □

CONGRESSIONAL ALERT

Issues That Could Affect *Your* Business

... and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
FY 1984 Budget/Taxes	Congress could mandate spending levels, particularly in entitlement programs, that would mean excessive deficits and the threat of higher taxes.	Members of Congress: Impose spending restraint with no tax increases; support capping cost-of-living allowances at 60 percent of consumer price index, equal to average private sector wage COLA.
Bankruptcy	Proposal makes it more difficult for consumers with adequate future incomes to escape payment of debts.	House and Senate Judiciary Committees: Report legislation to end abuse of bankruptcy code, require those who can pay debts to do so.
Natural Gas Decontrol	Administration bill would remove all price controls on gas by Jan. 1, 1986. It would also remove demand constraints that are unfair to business consumers.	House Energy and Commerce Committee, Senate Energy and Natural Resources Committee: Support goal of administration to decontrol natural gas by a definite date.
Jobs Bills	Passage would impede economic recovery by raising deficit. Make-work jobs have not proven successful in curing long-term unemployment.	House and Senate Labor Committees, House and Senate Public Works Committees: Oppose quick-fix solutions, support administration's long-term job-creation program, which is now working.
Domestic Content	Protectionist sentiment would be intensified by passage. Although the bill to discourage auto imports may save jobs in one sector, it would cause net loss of jobs nationwide because of foreign retaliation.	House Energy and Commerce Committee and Ways and Means Committee: Oppose any legislation that would restrict the free flow of trade; oppose H.R. 1234 and similar bills.
Export Administration Act	Passage means millions in new exports, significant increase in new domestic jobs, improved U.S. reputation for reliability.	House Foreign Affairs and Senate Banking Committees: Loosen controls on items freely available, tighten export controls of militarily significant technology.
Immigration	Adoption of proposed employer sanctions would be unworkable and ineffective, would place undue burden on small business.	House and Senate Judiciary Committees: Amend employer sanctions to remove small business paper work burden; target intentional violators.

Income Tax Indexing Must Be Preserved

THE BIG SPENDERS in Congress have virtually conceded defeat on attempts to cancel, delay or modify the 10 percent income tax cut scheduled this July 1 but have targeted tax indexing instead.

They want Congress to renege on its promise, embodied in the 1981 tax law, that taxpayers at long last will no longer be penalized by bracket creep resulting from inflation. In adding that provision to the 1981 law, Congress finally faced up to one of the most unfair aspects of the current tax system—the extent to which taxpayers who receive wage increases that offset inflation wind up with less purchasing power because the added income falls within higher tax brackets.

Tax brackets and personal exemptions are now scheduled to be adjusted automatically, beginning with the 1985 tax year, to reflect increases in the consumer price index. This is no windfall to upper-income taxpayers, as critics of indexing allege.

It not only will protect individuals at all taxable income levels from a flagrant unfairness, but it will also deny the government use of inflation-generated income tax revenue, which is actually an unlegislated tax increase.

Congress' long refusal to do something about the taxing away of pay gains that merely counter inflation was irresponsible. It would be even more irresponsible to reverse the corrective action that has been taken.

Market Forces Show the Way

THERE is a classic lesson on free market economics in the events preceding the current worldwide oil glut.

Both producer and consumer nations believed they could bend fundamental economic principles to their own advantage. Both were wrong.

Producer nations assumed that oil was so vital to the industrial nations that buyers would willingly pay whatever the sellers demanded.

However, the producers failed to anticipate to what extent their price squeeze would undermine the economies of other countries, sharply curtailing demand. They also miscalculated badly the extent to which skyrocketing prices would spur conservation.

Meanwhile, some consumer nations, such as the United States, believed early on that price controls and market allocations could protect their citizens from the realities of a seller's market.

But controls and other restraints served primarily to discourage the very exploration and development needed to fight back against the oil cartel's price gouging. When restraints came off, oil resource development increased.

For both sides, then, the law of supply and demand prevailed.

It would be unrealistic to assume that the present oversupply of crude oil will continue indefinitely. But its causes should be heeded when producers and consumers formulate energy policies in the future.

There's No Reason For a Retreat

AS THE article beginning on page 26 points out, this is not an easy time for business in its efforts to introduce badly needed moderation into key environmental laws.

The furor surrounding activities of the Environmental Protection Agency is being exploited by environmentalist organizations seeking to preserve and even toughen those laws.

Nothing that has happened, however, changes in any way the soundness of a basic business position: Environmental policies that unnecessarily impede economic growth work against the long-range national interest.

That principle will remain sound long after the current furor over EPA activities has faded. Business should stand its ground in support of the environmental policies it has properly championed for decades. □